Ireland's Policy Priorities

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Preface

The Public Policy Advisors Network is a network of leading specialists and specialist consultancies across the main areas of public policy in Ireland and Northern Ireland. It includes people with a strong public service and private sector background, all of whom are leaders in their respective policy areas. The Network also has access to other policy leaders who have held senior positions in the public service in Ireland and who are now available to contribute to our full service package. These include former assistant secretaries from several key economic departments, retired county managers and chief executives of both commercial and non-commercial state companies.

As a network the members are committed to addressing public policy development on an on-going basis. It does so through a membership which produces research papers and professional reports across the full spectrum of public management in Ireland and Northern Ireland and across the international policy arena. This document has been produced as a result of our commitment to creating the platform for informed debate on policy development. It is based on Papers developed by the Network Members and presented at what was the first of on-going annual symposia addressing key topics in public management in Ireland and Northern Ireland.

On behalf of the Network I hope that you will find the content interesting, provocative and will encourage you to engage with the Network in future activities, details on which will be made available to you as the development of the Network progresses.

Dr. Seán Ó'Riordáin, Editor

Contributors

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Dr Ronan Lyons is Assistant Professor of Economics at Trinity College Dublin. His areas of focus as an academic economist include long-run housing markets and sustainable and behavioural aspects of real estate markets. His doctoral thesis at Oxford was on the economics of Ireland's property market bubble and crash, and Ronan worked previously as Economist to Ireland's National Competitiveness Council and as Managing Consultant at IBM's Global Centre for Economic Development. He is a frequent contributor to national and international media on the Irish economy and is author of the quarterly Daft.ie Reports on the housing market.

Dr Stephen Kinsella is a Senior Lecturer in Economics at the University of Limerick. He is a consultant to the Bank of England, a Board member of the Higher Education authority and a research fellow at UCD's Geary institute. Stephen is a weekly columnist for the Sunday Business Post and, in addition to 4 books, about 25 journal articles and winning around 2 million euro in research funding, he has also written policy pieces for publications like the Harvard Business Review, Foreign Affairs, and VoxEU.

Dr Peter Brennan is Managing Director of EPS Consulting and a founding member of the Public Policy Advisors Network; He has completed over 350 projects over the past ten years for Government, the Oireachtas, State Agencies, Local Government, the European Commission, business and trade associations and private clients. He has particular expertise in relation to EU policies, climate change, the environment, public sector reform, the green economy, enterprise, transport and infrastructure and business development. Peter is also a shareholder in Bid Management Services which assists private companies produce bid documents and also advises public bodies on public procurement.

Denis Cagney is an independent private advisor on energy, regulation and competition matters. He currently advises a number of stakeholders in the Irish energy market and lectures on legal issues in energy regulation with the Florence School of Regulation at the European University Institute. Denis retired from the Commission for Energy Regulation (CER) in May 2015 where he had been Director of Energy Networks, Renewables and Legal Affairs since 2000. A qualified solicitor, Denis was Head of EU/Competition Law Unit at Matheson Solicitors for the period 1992 to 2000. Before that he had worked as a case officer in the European Commission (DG Competition) and as an Assistant Principal Officer in the Department of Finance.

Jack Keyes has had a career of successful leadership and management in and with the public and private sectors over 40 years Jack Keyes will advise in organisations and individuals who strive for effectiveness and continuous improvement through the transformation of their organisations. His approach is driven by a desire to unlock the potential in the individual as well as the team. As Council Chief Executive, Cavan became an award winning innovative county in areas including economic development, tourism, marketing, cultural excellence and social inclusion. His capacity to create and lead multi-functional and inter-agency initiatives that deliver results is nationally recognised.

Ruth Minogue is a member of the PPAN having worked in environmental and social consultancy since 1999. She has worked on a wide range of environmental and social studies and reviews for both public and private sector clients based in Ireland and elsewhere in the EU. Ruth has extensive experience in spatial, social and health impact studies. She also has extensive familiarity with social policy issues having undertaken several recent projects for the Councils in Ireland. She has worked on policy development, evaluation and review. She has also led extensive public consultation processes.

Dr Seán Ó'Riordáin is one of Ireland's leading advisors to government and the voluntary sector in economic and local development. He has extensive experience undertaking policy and organisation reviews for both the local government sector, the local and community development sector and national departments in Ireland and internationally. Seán has long contributed to national and local policy developments in Ireland and internationally. Seán is also chairman of the Public Policy Advisors Network.

John Martin has over forty years' experience as a planner in the public service, including stints as Deputy City Planner in Dublin and as Principal Planning Adviser in the Department of the Environment, Community and Local Government. In recent years he has broadened his expertise into marine spatial planning and healthcare planning – he is currently a member of the National Paediatric Hospital Development Board, which is charged with designing, building and equipping the New Children's Hospital at St. James's Hospital. John provides the Network with strategic policy inputs particularly regarding spatial development.

Introduction

The island of Ireland has seen great challenges and changes over the life span of the current governments in both jurisdictions. Returning the economy to growth in the Republic has been a central focus along with efforts to re-configure the public service at local and national level. Likewise in Northern Ireland, the Assembly has had to confront economic change, social challenges and an unstable political environment. As new governments come forward in both jurisdictions in 2016 the Public Policy Advisors Network undertook to address policy developments which might and arguably should become priorities for the new Government in Ireland.

For many people the immediate need is to deal with day to day political issues like dealing with homelessness, how should a country like Ireland deliver water? Given the form and nature of public management in the State and its commitment to underpinning the democratic processes of the State it cannot be surprising that such issues can be a feature of the policy development framework in the State. However, is simply addressing the immediate over the strategic challenges of government sufficient?

In an effort to consider this the PPAN identified what for its members are fundamental policy challenges for a new Government which ideally should be a platform for identifying policy priorities over the next 3-5 years. It is on the basis of this thinking that the following Papers have been prepared and they address:

- Public Sector Reform
- The Economics of the Next Programme for Government
- The implications of Climate Change and the EU 2030 Package on Ireland
- Local government reform and the need for spatial planning in Ireland

The Papers were prepared by leading specialists in each area and are published in full here.

Overview of Papers

Declan Kearney provides, in his paper on public service reform, an optimistic but critical analysis of reform to date and the need for consolidation of both structural and managerial transformation throughout the public service in Ireland. He acknowledges the need for whole of public service thinking with a focus on recognising the successes of the past decade but also the need to confront challenges in how the public service advances into an even more uncertain future. He calls for greater rigour in embedding reform and change in the wider public service and calls for leadership from both the political system and public service management. He places a re-configured approach to human resource management at the heart of any future transition framework for the wider public service. In addition he looks to new forms of external accreditation of re-structuring and management change, noting that one of the on-going challenges is to allow for the recognition of successful implementation of new processes and styles across a disaggregated system.

Climate change and energy policy are highlighted by Brennan and Cagney as a critical platform for policy development by the incoming government. In that context political leadership needs to recognise that sustainable thinking must be at the heart of all policy development for the foreseeable future. In their paper policy targets on climate change and energy which have been set at EU level means that Ireland is a policy-taker on these targets. The Paper acknowledges that there is a compelling case to having a senior Minister with responsibility for the task of de-carbonising the Irish economy across the whole of Government.

In examining the economic scenario, Lyons and Kinsella outline an important distinction between inevitable booms and busts in Ireland, where economic activity ebbs and flows with confidence and entirely avoidable bubble and crash cycles, driven by an excess of debt and inappropriate regulation of the financial system. The inevitable nature of booms and busts means there is a strong justification for government intervention to minimise the economic and social costs of recessions. However, two of the three traditional policy levers, namely trade policy and monetary policy, are no longer within the control of Irish policymakers. Even fiscal policy, understood for many years as the only true lever of short-term economic adjustment, is now curtailed by fiscal rules and by large levels of indebtedness in both the government and private sectors. The intersection between political and economic spheres, however, cannot be ignored but unfortunately there can be every expectation that, given the current political environment and the culture underpinning it, avoidance of a strategic or medium to long-term perspective is likely to inform how Ireland is governed.

The political economy of active demand management in a small open economy like Ireland's is still not well understood and is unlikely to be understood in the current context. The resources of the state can be used to their best effect in the service of Ireland's citizens but in the absence of strategic thinking and understanding of the dynamics of economic thinking the on-going boom and bust approach of central government in Ireland is likely to remain a feature of the next 3-5 years, a regret surely, given the harsh lessons of the past decade of lost opportunity for so many.

Finally, in their paper on local government and spatial planning, Ó'Riordáin, Martin, Keyes and Minogue, build on the theme of public service reform but place it within the framework that is spatially driven. They note the significant growth pressures the country will have to address over the coming decades. They call for a closer integration of how thematic based policy drivers such as in health, education and housing are planned given the spatial and locational dimensions of their impacts. Population growth needs to be addressed within a long-term strategic direction in spatial terms informing the design and delivery of thematic services. Hence the need for a re-invigorated local government system based upon citizen centred service delivery. The importance of a national planning framework is acknowledged as being key to successful service delivery as the population grows and ages over the next several decades. There is a critical challenge to fully understand that such is the case given the highly disaggregated organisation of both local and national systems of government.

Public Sector Reform
Challenges for an incoming Government
Declan Kearney

Introduction

The Public Service Reform Plan 2014 – 2016 and the Civil Service Renewal Plan are part of a series of reform plans dating back to the SMI (Strategic Management Initiative) of 1994. The reforms are based on introducing change based on private sector ideas and are referred to as public management or new public management initiatives. Typical of such reforms are initiatives like shared services, outsourcing services, customer focus and better use of information technology.

The current plans are very positive from a number of perspectives. They are easy to read and understand and have clearly articulated the goals to be achieved. They also include detailed implementation plans and regular updates on progress on implementation. One of the striking aspects of the current plans is the introduction of new, innovative and different ideas from earlier plans. For example coaching is being provided for senior managers by external executive coaches, there is talk of development centres and assessment and a strong focus on setting performance standards and measures at the most senior levels.

The objectives of the Public Service Reform Plan cover –

- delivery of improved outcomes,
- capitalising on the reform dividend,
- digitalisation and open data, and
- openness and accountability.

The four cross cutting initiatives are-

- a focus on service users,
- a focus on efficiency,
- a focus on openness and
- a focus on leadership and capacity.

The overall aim is to

” develop a high performing workforce that possesses the range of competencies required to function more effectively in the more complex policy environment.” Specifically the plan states that

“there is a need to strengthen the culture of driving, measuring and supporting high performance at senior levels in the Public Service” and

"As a consequence we need to develop a strong and systematic approach to defining clear expectations of performance and to measuring performance among the leadership cohort."

As well as the plan for the reform of the public service there is also a plan for Civil Service Renewal which describes the vision for the civil service as being –

" to provide a world class service to the State and to the people of Ireland"

This paper will examine the focus of both plans on developing a high performance workforce across the public service and will argue that, while there is much to commend the plans, a more rigorous approach is required if the objectives are to be achieved.

The focus on high performance

The key initiatives to achieve high performance are as follows –

- A focus on developing members of the Senior Public Service.
- A review of the performance management and development system in the civil service which will have implications for the public service as a whole.
- A new learning and development strategy.
- A focus on improving the capacity of line management.
- The further professionalisation of the Human Resources function.
- The introduction of a yearly staff engagement survey for the civil service.
- New HR initiatives – for example on examining grading structures and on removing restrictive recruitment practices.

As will be shown in the following paragraphs, these initiatives are central to promoting high performance and show that the plans take account of the issues facing the public service in raising performance standards and are in line with best practice.

Characteristics of high performing organisations

High performance organisations have been studied and their characteristics have been well documented. For example, the Boston Consulting Group describe the characteristics of high performing organisations as including –

- Shared leadership that drives direction and urgency.
- A structure that is aligned to strategy.
- People that are empowered with crystal clear goals.
- Change that is disciplined
- Culture that is performance focused.
- Engagement that is measured and cultivated to generate discretionary effort.

More specifically they include a focus on high performing teams, a strong leadership pipeline, few layers between the CEO and the frontline, wide spans of control and matching capabilities to role requirements.

Generally speaking, people working in high performing organisations are clear on what is expected of them, have the skills to do the job and are empowered to work with minimal supervision.

A case study on how an energising and motivational climate was created and maintained in the All Blacks is instructive. The study showed that to create a sustained energising and motivational climate, the following changes were made-

- A change from a command and control leadership style to more inclusive styles including participative, coaching and visionary.
- The introduction of shared leadership between managers, coaches and senior players.
- The introduction of one to one performance discussions.
- The better use of feedback and development plans.
- The promotion of empowerment, accountability and responsibility.
- The shared vision of an expectation of excellence – to be the best in the world.

The results achieved by creating this type of climate were 49 wins in 52 matches.

High performing organisations and leadership styles

There is a direct link between leadership styles and the climate created in an organisation or unit. What leaders and managers do and say really matters. Through adapting leadership styles the All Blacks created a highly motivational climate which has resulted in world class performance. The most used leadership styles were – visionary, participative, affiliative and coaching –the least used were directive and pacesetting. Other studies show that these styles of leadership create a highly engaged and motivational climate which creates a high performing workforce. Every good manager has a repertoire of styles and can pick the appropriate behaviour to suit the particular situation. Good managers and good people managers are emotionally mature enough to realise that they have to adapt their behaviours to suit every given situation and cannot use the same approach at all times in all situations. The All Blacks realised that the command and control style was not sufficient to create an energising and motivation al climate.

Research on management and leadership referred to by Daniel Goleman in his Harvard Business Review Article – Leadership that gets results - has identified six types of behaviour or styles used by managers –

- The directive style which entails strong sometimes even coercive behaviour, the primary objective being to gain immediate compliance.
- The visionary style which focuses on clarity and communication, the primary objective being to provide long-term direction and context and to gain buy-in and support.
- The affiliative style which emphasises harmony and relationships, the primary objective being to create trust and harmony.
- The participative style which is collaborative and democratic, the primary objective being to build consensus and commitment and to generate new ideas.
- The pacesetting style which is characterised by personal heroics, the primary objective being to accomplish tasks to a high standard of excellence.
- The coaching style which focuses on learning and development, the primary objective being the long term development of staff.

Each style is appropriate in certain situations and not in others. The most effective managers are adept at all six types of behaviour and use each when appropriate. Typically, however, managers default to the behaviours he or she is most comfortable using.

So, seeing that most commentators would describe the public service as command and control type organisations, what are the behaviours of a command and control type leader or manager? The most obvious is somebody who uses the directive style and only the directive style all the time and in every situation – "Do it now or else" Such a manager can be like a bull (bully?) in a china shop, and it can be difficult to talk to them in a relaxed manner. This type of manager can make you babble and grovel as you speak. The sort of person who appears not to listen and, in fact, probably doesn't. They certainly do not encourage open dialogue and it is very hard to tell such people that they might be wrong.

Benjamin Zander, the leader of the Boston philharmonic orchestra tells the story of a cello player fired by the conductor for missing a note at rehearsal (obviously in a time before unfair dismissals legislation) who said to the conductor, as he headed to the door with his cello in the case, "you son of a b*****" to which the conductor replied "its too late for apologies "so much was he engrossed in his own world.. Did the conductor know he was a command and control type manager? Everybody around him knew! Or the story from my own experience of the senior engineer, irked by a question from headquarters as to why a certain production line was not producing fast enough, literally runs to the line in question, finds a process technician working on the problem and shouts "leave the (expletive deleted) line alone, you don't know what you're (expletive deleted) doing". That company wondered why they had a staff turnover problem, particularly for process technicians. We know of anecdotal evidence of certain professions where this type of behaviour is rife but because of dependence on senior people for references nothing is said. People experiencing this type of behaviour often suffer in silence.

Sometimes the directive and pacesetting styles are used together , a toxic combination – "what do you mean it's not done yet, give it to me I'll do it, can nobody do anything around here? You won't last long in this business. The calibre of staff around here is not what it used to be". The sort of person who thinks that they are the font of all knowledge on how things should be done – and nobody but nobody is as good as them. They can even convey this message just by the way they look at you. The ego has landed type. These type of people are usually driven by an over active and often uncontrolled need to achieve which is not balanced by a similar need to treat people in a dignified way.

Being driven by achievement is not a bad thing in itself. In fact, managed properly it is very effective and drives innovation and entrepreneurial success. Unfortunately, if uncontrolled it can be very destructive and stifle initiative and innovation. And the interesting thing is that if you ask those with an unbalanced high need to achieve do they value dignity, integrity, respect and caring they would answer yes. Too often what we say we value is not demonstrated by what we do. Self deception is very popular.

The climate which can be created by the use of appropriate leadership styles is defined by Daniel Goleman as having the following six dimensions –

- Flexibility which concerns eliminating unnecessary bureaucracy and promoting innovation.
- Responsibility which concerns promoting autonomy and appropriate risk taking.
- Standards which concerns promoting continuous improvement and excellence.
- Rewards which concerns recognising achievements and dealing with underperformance.
- Clarity which concerns being clear on the objectives of the organisation and the objectives of the particular job.
- Team commitment which concerns cooperation, dedication, pride and congeniality.

A positive and motivating climate would be one where staff would say that they experienced each of the dimensions as a positive contribution to carrying out their work. A negative or de-motivating climate would be one where staff would say that each (or some) of the dimensions is a negative contribution to carrying out their work

Research shows that the use of the directive and pacesetting styles of management creates a de-motivating climate because they promote a compliant rather than a committed workforce and do nothing to ensure that the dimensions mentioned above are perceived positively by staff. On the other hand, the use of the visionary, affiliative, participative and coaching styles creates a positive and energising climate by having a direct impact on ensuring the dimensions are perceived positively by staff.

How Close is the public service to a high performing organisation?

On the positive side it is worth mentioning that -

- AJ Chopra of the IMF stated that public service capabilities were uniformly superb and this was endorsed recently by the Minister for Public Expenditure and Reform.
- Our last Presidency was very successful and we exited the Troika in spite of resource constraints.
- Ireland's governance effectiveness rating increased from 1.34 in 2010 to 1.53 in 2012, above the OECD average of 1.29.
- In terms of public administration, the quality of Irish public administration is seen as above the European average with Ireland ranking 5th compared to the EU28 in 2013. This represents both an absolute and comparative improvement since 2010

The Public Service – some negative feedback

Five pieces of data are used to draw conclusions on the issues facing the public service. These are the results of the last survey on PMDS in the civil service, a recent survey of HR managers, a recent survey of staff engagement, the most recent report on public service absenteeism and the findings of the Toland Report of the Department of Justice and Equality.

A survey of PMDS in the civil service in 2010 contained some interesting results. On Planning and Monitoring the survey found that –

- 75% of staff said they agreed their objectives and key deliverables with their manager.
- 73% said they had a good sense of how well they have been performing throughout the year

On Performance the survey found that-

- 16% of staff said that their Department/Office tackles underperformance appropriately – 84% say they do not.

On Motivation and Development the survey found that-

- 27% say that they talk with their manager about motivation and development
- 28% say that they were getting development assignments.

On senior management support the survey found that-

- 39% of managers agree that senior management are giving support, leadership and commitment to the PMDS. This means that 61% say they do not.

A recent survey of public service HR managers carried out by Public Affairs Ireland listed the following as the top five issues for HR managers -

1. Sustaining employee morale and engagement – 62%

2. Securing resources to deliver effective services – 57%

3. Attracting and retaining qualified staff – 54%

4. Developing talent management strategy and practice – 53%

5. Developing a positive industrial relations climate – 50%

This survey captures the aftermath of the recent crisis and points to morale, engagement and resource issues as being the most critical.

A survey on engagement carried out as part of the civil service renewal programme asked –if you could change one thing to make the civil service more effective what would it be? The top five answers were –

- Performance and PMDS.
- Promotion Process.
- Training and Development
- Skills match.
- Mobility.

This survey points to dissatisfaction with the current system for managing performance with suggestions that it should be scrapped or at least simplified. Suggestions were made f for mandatory training for managers because of a perceived lack of engagement, disenfranchisement of some staff and absence of visible management. The possibility of a staff college was also put forward as a suggestion.

The latest absenteeism statistics show that-

- Average days lost in the Public Service in 2014 is 8.7 compared to 9.5 in 2013.
- Average days lost in private sector is 6.
- Civil Service in general – absenteeism more prevalent the more junior the grade.
- More evidence of lack of employee engagement?

The Toland Report

The key recommendations of the Toland Report on the Department of Justice and Equality included:

- The strengthening of leadership and management.

- The implementation of performance management.
- 360 degree feedback for Secretary General and Assistant Secretaries.
- The clarification of the remit of Department and its Agencies, and
- Mandatory meetings at senior levels and regular division/agency reviews.
-

Perhaps this is another example of the aftermath of the financial crisis. The recommendations are firmly in line with the thrust of the reform programmes and point to serious leadership and management challenge for the Department.

Conclusions

The conclusions are that we have a public service that is positively regarded internationally but has some recurring problems in regard to leadership and management back at home. The recent crisis has had a serious impact on morale, service delivery and image. The leadership styles which seem most prevalent are the pacesetting and the directive styles with little emphasis on the visionary, affiliative, participative or coaching styles. The initiatives contained in the reform plans attempt to address these issues but need much more rigor if they are to succeed.

Old problems need innovative solutions

To understand the type of initiatives required for the future some further analysis of the PMDS is necessary. The survey results on PMDS mentioned above show that the system as experienced in the civil service has moved a long way from what it was intended to achieve. Originally introduced as part of the changes that came about when Human Resource Management was introduced, Performance Management was intended to be a system which motivated and challenged staff to give of their best and which saw continuous improvement as a cornerstone. Motivation, challenge and improvement were the key words. Getting it right meant that staff were proud of their work and proud of their organisation.

The types of theories on which performance management systems are supposed to be based are goal setting theories, motivation theories and theories of positive psychology. The evidence suggests that the system has degenerated into a form filling exercise with little or no attention given by managers to the underlying reasons for its introduction.

To illustrate the point, the ratings given under the PMDS over the past number of years (available on the DPER website) are set out in the table below.

Rating	2008	2009	2010	2011
Normal Distribution%	**% of staff**	**% of staff**	**% of staff**	**% of staff**
5 (0-10)	7	8	9	8
4 (20-30)	49	55	56	56
3 (40-60)	42	36	34	35
2 (10-20)	2	1.3	0.95	0.90
1 (0-10)	0.28	0.08	0.05	0.13

Understandably, these results caused some concern. Just to be clear a 3 rating means fully achieved expectations, a I is for unsatisfactory, 2 is needs to improve, 4 is for achieving a high standard and a 5 is for exceptional performance. Questions were raised about why the ratings were not closer to the normal distribution percentages and about how there can be so few needing to improve. And looking at category 4 – which means achieving a high standard - why is the number so high?

It would have been interesting if more research was carried out to understand the thinking of managers when giving end of year ratings. Anecdotal evidence suggests that the thinking is that

- To give less than a 3 would cause de-motivation to the staff concerned particularly in the current climate of pay cuts and additional hours.
- Giving a 3 to staff who should be rated lower causes less hassle in that performance improvement plans do not have to be prepared,
- A 3 is not a real motivator in that it is only the middle of a five point scale so I therefore have to give my good performers a 4 or a 5 in order to motivate them.

Of course this type of thinking ignores the negative impact on the motivation of good performers of not rating those who are unsatisfactory appropriately. It also places very high importance on ratings as a motivator when research shows that other things like achievements, the work itself, additional responsibility and learning and development discussions and opportunities are equally if not more important. However, the research shows that these elements are not widely discussed as part of the process.

The radical answer to the ratings dilemma is to introduce a forced distribution system. This means that all managers would have to use the normal distribution percentages. So if you had ten staff, one would be rated 5, three rated 4 etc..down to one rated 1. Seen as a divisive system it has recently been abandoned in some large corporations.

Some have suggested that there should be only three ratings – above target, on target and below target. Others have suggested that the system would be better with no ratings at all on the argument that this would promote real discussion between a manager and his or her staff on performance issues.

The big issue which is behind these suggestions is how to ensure that managers are better equipped to motivate and challenge staff to give of their best so that high performance and continuous improvement is achieved and maintained while at the same time ensuring that unsatisfactory performance is dealt with appropriately.

To address these issues DPER have introduced -

- More streamlined processes to encourage managers and staff to have a more meaningful engagement about standards of performance
- Grade based competencies to ensure that people who are paid the same salary will be assessed against a common set of behaviours and will be expected to reach a similar standard of performance in relation to 'how' they do their jobs.
- A revised Ratings Scale with improved descriptions of performance which spell out in much more detail what good and excellent performance looks like.
- A rating of 3 or 'Fully Achieved Expectations' will be required for the granting of an increment.
- A condition that managers should only receive a rating of 3 or above where they have been managing their staff throughout the year.
- Procedures whereby ratings will be decided by meetings of managers. This idea to be introduced on a phased basis, commencing with senior grades is intended to create a more honest evaluation of the work of the staff of each of the managers at the meeting.
- Guidelines on dealing with underperformance which outline very clearly the steps to be followed when managing underperformance.

These ideas are very useful, however, there seems to be an undue focus on making improvements in the rating of performance and much less focus on making improvements in how performance is managed and improved. While it is important that staff are aware of where they stand in terms of performance it is also important that managers understand the critical role they have in creating a motivating and challenging work environment. The survey showed that motivating and developing staff was not seen as a strength of managers.

In summary the operation of the PMDS has not resulted in any changes in the dominant leadership styles and for this reason it needs to be radically over-hauled. Getting PMDS to work means introducing more coaching, mentoring and development opportunities for both managers and staff so that the focus is firmly on motivation, challenge and continuous improvement.

More rigour required

There is a very narrow approach to managing performance at present which could be said to be concentrated solely on managing underperformance. As a manager you will find guidelines on how to deal with underperformance on the website of DPER. Instead of guidelines on managing underperformance what about a handbook on successful management? Instead of an explanation of PMDS what about an explanation of how to improve engagement? As an example of what is required, The Scottish Civil Service Instead of three meetings a year as we have, have one every month.

Every month each manager meets each direct report fora one to one discussions on –

What have you achieved in the last month?

What are you learning?

What issues do you have?

What support do you need for next month? And its mandatory

A real focus on performance requires frequent conversations

To ensure that the appropriate leadership styles are used is it not now time for mandatory accreditation for public service managers with continuous professional development and continuous assessment? This would mean viewing management as a profession just like other professions. You would not attend an unqualified doctor so why do we have unqualified leaders and managers? It is interesting that staff see the need for accreditation.

In addition to accredited training, staff who attend must be encouraged to use what they have learned by their own managers – and this applies right o the top of organisations. This is the only way to ensure that change will occur. The coaching initiative being rolled out to members of the SPS is a good start but, for real performance improvement, the numbers attending will need to be substantially increased.

Similarly, is it not now time for mandatory staff engagement initiatives – a large body of research in the UK suggests that successful engagement leads to high performance.

For success, research has shown that engagement initiatives require -

- Visible, empowering leadership providing a strong strategic narrative about the organisation, where it's come from and where it's going.
- Engaging managers who focus their staff and give them scope, treat their staff as individuals and coach and stretch them to reach their full potential.
- There is employee voice throughout the organisations, for reinforcing and challenging views, between functions and externally, staff are seen as central to the solution.
- There is organisational integrity – the values on the wall are reflected in day to day behaviours. There is no 'gap between what people say and what they do.

These ideas will become more relevant when the results of the first civil service wide engagement survey are known. Based on the conclusions of this paper it is to be expected that leadership and management challenges will be raised in the survey.

And, continuing on the mandatory theme, instead of promoting mobility why not make it mandatory? Other countries do. As recommended by the OECD back in 2008, we should make better use of the public service as a whole for development and learning through opening up opportunities for mobility.

The role of HR

The HR function can be a real support in bringing about the changes required. Possible functions and expertise could include:

> – Business partners to line managers, staff engagement experts, business process experts, change management experts and experts on promoting high performance.

Concluding comments

- There are very positive initiatives in the reform plans.
- However, promoting high performance requires different ways of managing and leading.
- To be taken seriously more rigour is required and mandatory systems for implementation need to be introduced.

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10. Civil Service engagement survey, DPER.
11. Absenteeism statistics, DPER.
12. The Toland Report, Department of Justice and Equality.

Ireland's Response to the EU's 2030 Energy and Climate Change Targets

Dr Peter Brennan and Denis Cagney

Executive Summary

Among the issues facing the next Government are the following:

1. The likelihood that Ireland may fail to meet its legally binding greenhouse gas (**GHG**) emissions reduction and renewable energy targets in the period to 2020.
2. Securing at EU level a more equitable (i.e. lower) GHG emissions reduction effort share for Ireland post 2020.
3. Adopting a National Mitigation Plan to 2030 that has precise sub-sector targets with identified measures and approved budgets.
4. Implementing the EU's October 2014 decisions on renewable energy and energy efficiency reflecting policy priorities set out in the forthcoming White Paper on energy.
5. The social and economic case for the agriculture sector not being given a free pass.
6. The potentially significant impacts of the EU's climate and energy 2030 package on the Exchequer's position.
7. Driving the low-carbon agenda beyond mere compliance.
8. Climate change leadership.

Introduction

This paper takes as a starting point the conclusions of the European Council on the EU's 2030 energy and climate policy framework agreed on 23/24 October 2014 as this is the EU's contribution to the forthcoming COP negotiations in Paris.[1] More importantly, and regardless of the outcome of the Paris negotiations, these conclusions will shape and have a profound influence over Ireland's climate change, renewable and energy efficiency policies over the next 15 years.

Among the issues facing the next Government covered in the paper are the following:

1. The likelihood that Ireland may fail to meet its legally binding greenhouse gas (**GHG**) emissions reduction and renewable energy targets in the period to 2020.
2. Securing at EU level a more equitable (i.e. lower) GHG emissions reduction effort share for Ireland post 2020.
3. Adopting a National Mitigation Plan to 2030 that has precise sub-sector targets with identified measures and approved budgets.

[1] Conclusions of the European Council (23 and 24 October 2014).

4. Implementing the EU's October 2014 decisions on renewable energy and energy efficiency reflecting policy priorities set out in the White Paper on energy.
5. The social and economic case for the agriculture sector not being given a free pass.
6. The potentially significant impacts of the EU's climate and energy 2030 package on the Exchequer's position.
7. Driving the low-carbon agenda beyond mere compliance.
8. Climate change leadership.

Before addressing these issues in turn, the current policy situation and EU and at national level is set out below.

Policy Context at EU Level

In **October 2009**, the EU set itself the objective of reducing GHG emissions by 80-95% by 2050 compared to 1990 levels.

In **October 2014**, the EU agreed a binding EU target of at 40% domestic reduction in GHGs by 2030 compared to 1990. The Emissions Trading System (**ETS**) sector will contribute 43% of this target and the non-ETS sectors 30%. The European Council has also agreed an EU target of at least 27% for the share of renewable energy consumed in the EU by 2030 and a similar indicative percentage for energy efficiency. Based on these conclusions, the EU submitted its intended nationally determined contribution (**INDC**) to the United Nations Framework Convention on Climate Change (**UNFCCC**) in March 2015.

In **July 2015**, the Commission tabled its proposals to adjust the ETS to take account of the October 2014 decision. [2] A higher annual linear reduction (**ALR**) of 2.2% (up from 1.74%) has been proposed as have important changes to the way Member States spend the revenue they receive from the auctioning of ETS allowances.

A revised Effort Sharing Decision (**ESD**) (to be published in 2016) will determine Ireland's and other Member State's burden share in the non-ETS sector.[3] The proposals will be based on *a fair sharing of efforts between Member States which reflect their specific circumstances and capacities.*[4]

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[2] Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, COM (2015) 337 final, 15 July 2015.

[3] Decision 406/2009/EC of the European Parliament and of the Council on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020, 23 April 2009.

[4] European Commission, Communication to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, *A policy framework for climate and energy in the period from 2020 to 2030,* COM (2014) 15 final, January 2014, page 4. The public consultation on the Commission's proposals ended on 18 June 2015. Bear in mind that the EU accounts for just 11% of global emissions.

In **September 2015**, EU Environment Ministers adopted the EU's negotiating mandate for the Paris UN Climate Change Conference.[5] They noted that to stay below 2° C, global GHGs need to peak by 2020 at the latest; to be reduced by at least 50% by 2050 compared to 1990; and be near zero or below by 2100.

Given that 150 of the 186 nations, including China, the US, India and many other large economies, have tabled INDCs; as the US and China share common policy objectives; and as some $77 billion towards the $100 billion Climate Fund has been committed, there is an expectation that there will be agreement in Paris but that this may well fall short of a binding international treaty. In previous COPs the Parties sought to preserve their strategic and competitive advantages. In the face of the compelling scientific evidence, there are signs that a new approach to global climate change is now needed. However, the pledges tabled to date (if fully implemented) will result in GHGs rising to at least 2.5°. This is an obvious matter of concern.

In summary, building on the current EU 20-20-20 energy and climate package (i.e. the package that agreed a 20% reduction in GHGs by 2020 and a 20% penetration rate for renewable energy), there is unanimity at EU level as regards the strategy to be adopted post-2020.

Meeting ETS and Non-ETS Targets

Before looking at the situation post-2020, it is essential to assess whether Ireland will meet its current targets and once that is done then the scale of the challenge post-2020 become apparent.

The following Table shows Ireland's current, target and forecast emissions through to 2030 for both the ETS and non-ETS sectors under the 'With Measures' (**WM**) scenario. [6]

Table 1 - Ireland's GHG Emissions (Million tonnes (Mt))

	2005	2013	2020	2025	2030
Ireland's ETS target (-20/40%)			17.8		13.4
ETS emissions	22.3	15.7			
Forecast ETS emissions (WM)			16.9	18	18.8
ETS Distance to Target			1.1		4.7
Ireland's target non-ETS (-20/40%)			38.7		29
Non-ETS emissions	48.4	42.6			

[5] From 30 November to 11 December 2015 Paris will host the 21st session of the Conference of the Parties (**COP**) to the UNFCCC and the 11th session of the meeting of the Parties to the Kyoto Protocol.

[6] The 'With Measures' scenarios is based primarily on SEAI's baseline energy forecast which incorporates the anticipated impact of policies and measures that were in place (and legislatively provided for) by the end of 2013. 'With Additional Measures' is based on the NEEEP/NREAP energy forecast and includes planned policies and measures. As no specific Exchequer funding has been allocated to any mitigation measures (apart from energy efficiency) the assumption is that the WM scenario is the most realistic when it comes to estimating Ireland's 'emissions distance to target gap' for both the ETS and non-ETS sectors.

Forecast non-ETS emissions (WM)		43.9	45	45
Non-ETS Distance to Target		5.2		16
Total emissions	58.3	60.7	63	63.8

Source: EPA GHG Emission Projections 2013-2035 (May 2015) and own calculations

It is a matter of concern (with four years to go to 2020) that the updated assessment of Ireland's progress towards achieving its GHG emission reduction targets shows that the 'distance to target' for non-ETS emissions in the year 2020 (excluding banking from previous years) may be 5.2 Mt and this may rise to 16 Mt by 2030.

What the latest EPA projections (WM) suggest is that by 2020 non-ETS emissions will have fallen by 4.5 Mt or by 9% with reference to the 2005 base year. Current EPA estimates are that a very significant cumulative shortfall will inevitably build up given the sharp forecast rise in transport emissions in particular.

From 2005, Ireland's overall GHG emissions have fallen by 10 Mt; at least 5 Mt over the EU's ETS and non-ETS targets. By 2030, in the absence of mitigation measures and flexibility at EU level in relation to the burden sharing key, the distance to target could be as high as 21 Mt.

The EPA has cautioned: *Ireland is not on track towards decarbonising the economy in the long term and will face steep challenges post-2020 unless further policies and measures are put in place over and above those envisaged between now and 2020.*

Furthermore, by falling short of the pre-2020 targets this makes the post-2020 targets even more challenging. In short, Ireland is nowhere near (despite all the rhetoric) of being on a low carbon pathway.

This is also the view of the Minister for the Environment, Community and Local Government who recently said: it is no secret that Ireland is not going to meet the EU GHG emissions targets for 2020. [7]What is also of note is that the Minister did not explain what precise additional measures are needed this side of 2020 to close this compliance gap.

National Mitigation Strategy

Ireland's first and only National Climate Change Strategy was adopted in 2007. [8]

Since then numerous policy initiatives and research reports have been published, including the following:

1. *Towards a New National Climate Policy.*[9]
2. *Ireland and the Climate Change Challenge: Connecting 'How Much' with 'How To'.* [10]

[7] Interview with Harry McGee, the *Irish Times*, 21 October 2015.
[8] Department of the Environment, Heritage and Local Government, *National Climate Change Strategy 2007-2012*, April 2007.
[9] Interim Report, NESC, June 2012.

3. *Low Carbon Energy Roadmap for Ireland*.[11]
4. *Climate Action and Low Carbon Development National Policy Position* that sets the fundamental national objective of achieving a transition to a competitive, low carbon, climate resilient and environmentally sustainable economy by 2050.[12]
5. *The Potential for GHG Mitigation within the Agriculture and Forestry Sectors*.[13]

These documents have helped shape the debate, have re-stated and clarified policy and strategic objectives but none has determined the policy signals at a sufficient level of detail that is critical to convince households, business and the public sector to invest or (more importantly) the precise costs of the proposed mitigation measures at micro level that need to be implemented before 2020.

The scale of challenge in relation to the interdependent issues of climate and energy could be summarised as follows.

Table 2 - Ireland's Low Carbon Roadmap to 2050

Sector	2030 relative to 1990		2050 Relative to 1990	
	BAU	Low Carbon	BAU	Low Carbon
Electricity	45%	-56% to -58%	31%	-84% to -94%
Buildings	-11%	-53%	-11%	-75 to -99%
Services	5%	-33%	-6%	- 70% to -99%
Residential	-16%	-59%	-13%	-77% to 98%
Transport	226%	104% to 122%	285%	-72% to -92%
Agriculture	?	?	?	?

Source: ERSI, E4sma and UCC (2013)

While a National Low Carbon Transition and Mitigation Plan (**NMP**) will be published by the next Government, the reality is that no fully resourced action plan has been adopted since 2007 to put Ireland on a pathway towards sustainable climate neutrality. It is no wonder then that Ireland will fail to meet its GHG emission reduction targets and if this happens the tax payer will have to meet the bill.

[10] NESC, December 2012.
[11] ESRI, E4sma and UCC, December 2013.
[12] National Policy Position, Department of the Environment, Community and Local Government, April 2014.
[13] Discussion Document, Department of Agriculture, Food and the Marine, January 2015.

KEY MESSAGE

For the NMP to have credibility:

1. **It should be based on a detailed Regulatory Impact Assessment of the Commission's 2030 proposals.**
2. **Investment priorities should be set with reference to a risk assessment and a Marginal Abatement Cost Curves for each of the four sectors involved.**[14]
3. **Mitigation measures should not be advanced unless the agency(ies) tasked with their delivery has/have a budget to support their actions.**
4. **A Business-As-Usual scenario for agriculture is no longer an option.**
5. **A multi-annual Carbon Budget needs to be introduced.**
6. **The NMP should cover the period to 2030 and in so doing should anticipate how Ireland will be impacted by a revised ESD and the agreed linear cuts in our ETS emissions.**
7. **More public funding needs to be allocated to communication and awareness raising with the aim of altering consumer and business behaviour.**
8. **An economic appraisal of the potential of buying compliance through statistical transfers and other available offset options should be completed.**
9. **The economy-wide benefits that will accrue should Ireland exceed its targets should be identified as an alternative to a 'compliance only approach'.**
10. **The Sustainable Energy Authority of Ireland should be designated as the statutory body for the coordination and delivery of Ireland's NMP.**

We should not forget the adage: *what is measured can be managed*.

The Case for a Fairer Effort Share for Ireland

In 2008, and using GDP per capita as the primary criteria, Ireland, Denmark and Luxembourg agreed to a burden share of minus 20% in relation to non-ETS emissions. Twelve Member States were allowed to increase their non-ETS emissions by 2020 with reference to the 2005 baseline; while the EU's overall reduction target for the non-ETS sector was 10%. In the intervening six years Ireland's GDP fell by 16.8% and debt/GDP has risen from 25% to 124%.

[14] Policy makers in many countries around the world are confronted with the challenge of finding affordable means of reducing GHG emissions. MACCs, pioneered by McKinsey & Company, are frequently used to illustrate the economic and technological feasibility of climate change mitigation. A MACC is defined as a graph that indicates the marginal cost (the cost of the lat unit) of emissions abatement for varying amounts of emissions reductions. The construction and interpretation of MACCs has been criticised *inter alia* by the UCL Energy Institute (paper by Paul Ekins, Fabian Kesicki and Andrew Z.P. Smith, April 2011).

A major gap in the Commission's Impact Assessment of the 2030 package is the absence of any quantification with respect to the distribution of effort between Member States in relation to non-ETS emissions so as to ensure more equitable effort sharing arrangement and to what extent flexibility mechanisms can contribute.[15]

Therefore there is no policy-based research evidence to hand to support changes in the current effort share formula.

What are the arguments for Ireland securing a much lower non-ETS GHG emissions reduction target post-2020?

1. Member States with a GNI level at or above Ireland should currently be bearing a commensurately higher effort share. [16] Using Gross National Income (PPP adjusted), Ireland's GNI has fallen 4% between 2008 and 2012, whereas the GNI of Austria, Belgium, Finland, Germany, the Netherlands and Sweden – Member States will a lower effort sharing target – has risen.
2. The second reason why the current effort share matrix should be changed is that give the significant reduction in national GDP (and GNI) and rising debt to GDP ratio (until 2014), Ireland did not have the resources required to invest in GHG emissions reduction measures (nor energy efficiency or renewable energy to the extent required by binding EU targets) and should not as a consequence be penalised for not meeting its 2020 target.
3. Using historic GDP per capita only as the basis for determining Member State's effort share is clearly inequitable and does not reflect fully *the specific circumstances and capacities of Ireland* for one (as was agreed in the October 2014 conclusions).
4. The Commission's assessment is that the EU-28 will exceed its 2020 non-ETS GHG emissions reduction target of 20% by 2020 by six percentage points; GHG emissions at EU level are expected to fall by 30% in 2030 over the 2005 baseline.[17] Given this generous margin there are grounds not to impose targets at Member State level much in excess of minus 10% for the period post 2020.
5. The revision of the ESD should be based on Member States' past, current and forecast performance in reducing emissions in **both** the ETS and non-ETS sectors. The collective effort of a Member

[15] European Commission Staff Working Document, Impact Assessment accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: a policy framework for climate and energy in the period from 2020 to 2030, SWD (2014) 15 final, 22 January 2014.

[16] World Development Indicators, April 2014. GNI (Gross National Income) is based on a similar principle to GNP. The World Bank defines GNI as: the sum of value added by all resident producers plus any product taxes (minus subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.

[17] European Commission, *Sixth National Communication and First Biennial Report from the European Union Under the UN Framework Convention on Climate Change*, 2014.

State's track record to set its economy on a low carbon trajectory using all policy instruments (ETS, non-ETS, renewable and energy efficiency) should be taken into account.

6. Even if Ireland could make a strong case based on GDP/GNI performance, this on its own will not help Ireland arrive at a more equitable effort share post-2020 unless other desiderata such as the contribution of agriculture in the economy and the potential of carbon sinks are taken into account. So what might these include? Allowances (percentage reductions in the standard effort sharing 'key') might be added for Member States with agriculture production output above the EU average; where the fall in GDP in the period 2008 to 2014 has been below the EU average; where the debt to GDP ratio increased by more than 50% (thereby preventing that Member State from investing in low carbon mitigation measures); and, where renewable energy and energy efficiency targets will be met by 2020.

The rationale for such a flexible approach - a move away from a GDP per capita formula - is based on the Commission's express policy principle that there should be a fair sharing of effort between Member States which reflect their specific circumstances and capacities.

As the EU's 'distance to target' in meeting a 40% GHG emissions reduction target by 2030 in a Business-As-Usual scenario is just 10%, it would be helpful to know the potential additional contribution that could be made if a 25% EU-wide energy efficiency target was agreed for 2030 and if the share of renewable energy as a proportion of final energy consumed was increased, from its current (2012) penetration of 13% to 25% by 2030.

KEY MESSAGE

There are solid arguments to support the case that Ireland's share of the EU's non-ETS GHG emissions reductions effort post-2020 should be much lower than the current target of minus 20%. Securing a more equitable effort share of the EU's overall burden implies that Ireland will apply the same principle and apply an equitable arrangement so that all parts of the economy contribute to meeting Ireland's non-ETS targets through to 2030.

Agriculture Emissions

A dominant debate in Ireland in the area of climate change is about agriculture, with the agri-food lobby arguing for 'Climate-Smart Agriculture' and others making the case that agriculture should not be given a free pass at the expense of other sectors of the economy and most importantly the general taxpayer.

The discussion on possible mitigation measures takes place in the knowledge of Teagasc data that suggests agriculture emissions in 2030 will be 19.7 Mt or just 0.3 Mt lower than 2020 levels. [18] Using the current effort share arrangement, a 40% reduction in agriculture emissions by 2030 would imply a further 7.5 Mt reduction in agriculture emissions if the farming sector was to contribute its fair share of the national burden; the figure falls to 6.2 Mt if a 30% effort share was used. To put this 2030 distance to target figure in context; it is higher than current emissions from all Irish households.

One has also to factor in the cumulative annual impact of near zero agriculture mitigation over the decade to 2030.

The current EU legal position is that the Exchequer i.e. the general taxpayer will have to pay fines if agriculture and other non-ETS GHG emissions are not reduced. If, for example, agriculture emissions stayed as predicted fines (at a carbon price of €10/tonne) in the range €500m to €750m may have to be added to the budget arithmetic in the medium term.

The cost of dairy GHG emissions is €0.02 per litre and €0.46 per kilo for beef; or 6.5% and 10.7% respectively of the sales value of these products.[19] If the pollution pays principle applied, all consumers of dairy and beef should in theory pay the full economic cost of food reflecting Irish agriculture's inability to meet its emission reduction targets. But passing on these costs to consumers will not result in any significant abatement nor an increase in Exchequer revenues unless a carbon tax was extended to cover the 'distance to target' shortfall represented by dairy and beef emissions.

The Intergovernmental Panel on Climate Change (**IPCC**) has pointed out that forestry can contribute both to reducing emission sources and to increasing sinks. Due to the direct link between land-use decisions and sustainable development, forestry plays a key role when addressing the climate change problem in the broader context of global change and sustainable development.[20] In Ireland, as has been accepted by DAFM, this sector is a net carbon sink and therefore with much increased afforestation levels, it has the potential to offset **some** agriculture emissions post-2020.[21]

Reflecting the views of Council and the European Parliament on the adoption of the ESD the Commission was asked to submit a report assessing how to include emissions and removals related to land use, land use change and forestry (**LULUCF**) in the Community and to propose how to include this sector in the Community reduction commitment. The proposal of including LULUCF into the 2030 framework was acknowledged in the Commission's Impact Assessment (page 47) and policy options, including the setting up of a new 'land sector pillar', were assessed in a positive manner (page 113). Following extensive

[18] op cit EPA (2015).
[19] Alan Matthews, Professor Emeritus of European Agricultural Policy, Trinity College Dublin, *Incentivising Climate-Smart Agriculture*, presentation to the IIEA, 5 June 2015.
[20] IPCC (2007), *Climate Change Synthesis Report, Summary for Policy Makers*, Fourth Assessment Report.
[21] *op cit* DAFM (page 58).

consultation, the Commission will bring forward in 2016 a legal instrument that may combine agriculture emissions with other LULUCF emissions and in so doing - from Ireland's perspective - potentially ring-fence agriculture from the proposed additional emissions reduction target in the non-ETS sector. [22]

There is a significant time-lag between planting and the forest becoming a source of carbon. In fact, when the ground is broken to plant a tree carbon is emitted. Therefore the likelihood of new forest sequestration becoming a significant net offset to agriculture emissions is slim this side of 2030. At a very minimum the Exchequer would need with immediate effect to triple the premiums and grants to promote afforestation over a decade to generate a forest carbon sink that might be capable of offsetting some of the forecast agriculture 'distance to target' shortfall by 2030.

If the current projected level of forest sinks was included in the calculation and as part of a wider LULUCF envelope an offset of 3.5Mt could be factored in. This would rise to 5.2Mt if the rate of afforestation was increased to 20,000 hectares. This is an unrealistic level of planting given recent levels of afforestation.[23] However, if a price was put on forest carbon (as has been suggested by Coillte) then this has the potential to change the market dynamics and policy mix.[24]

Another scenario - one less favourable to Ireland - suggests that by allowing such flexibility, we may be given a tougher effort sharing target in the period from 2020 to 2030 which would, in practical terms place a much higher burden of compliance on the non-farming non-ETS sectors, including transport, business and households.

KEY MESSAGE

The Climate-Smart Agriculture project should consider a few additional options, as follows, to the current policy menu which suggests that near zero mitigation for agriculture emissions is the preferred approach.

1. **Determine to what extent statistical transfers could be used to buy compliance pre- and post 2020 and the costs of such an option.**
2. **Assess the impacts and competitiveness implications of having a carbon price on agriculture emissions from 2020.[25]**

[22] European Commission, consultation on addressing GHG from agriculture and LULUCF in the context of the 2030 EU climate and energy framework, 26 March 2015. The consultation period closed on 18 June 2015.
[23] House of the Oireachtas, Joint Committee on Climate Change and Energy Security, *Report on the European Commission's Green paper on Protecting Europe's Forests Against Climate Change*. The data was provided by Coillte, July 2010.
[24] Presentation by Coillte to the Joint Committee on Climate Change and Energy Security, 10 November 2010.
[25] To date, 40 countries have put a price on carbon or are in the process of doing so. On 19 October 2015, several Heads of State joined forces with leaders of states, cities and corporations to call for wider adoption of carbon pricing policies ahead of the Paris COP. German Chancellor Angela Merkel, Philippines President Benigno Aquino III and

3. **Make the case as to why subsidies to the farming community should not be cut to match the fine that the Exchequer (and general taxpayer) will have to pay if net agriculture GHG emissions are not reduced in compliance with binding EU targets.**
4. **Carry out an economic appraisal of applying a carbon tax on Irish beef and dairy exports and domestic consumption to reflect the true cost of agriculture GHG emissions.**
5. **Assess the potential for and consequences of a forest carbon price.**
6. **Quantify the investment needed in afforestation so that forest carbon could completely offset agriculture emissions by 2030.**
7. **Attempt to quantify the specific mitigation measures suggested in the Strategic Environmental Assessment (**SEA**) of Food Wise 2025 and the economy wide costs implicit in these measures.**[26]

The very proposition that food producers should make a payment to support the national effort to help our transition to a low carbon economy is anathema to many. If a carbon tax applies to fuel why should it (or a carbon price) not apply to the products that result in Ireland (2015) having one of the world's highest per capita GHG emissions (12.7 tonnes per person) and the second highest in the EU after Luxembourg?

Trading Annual Emission Allocations

If agriculture is treated as part of a LULUCF envelope/pillar, the next biggest challenge for Ireland is the required reduction in transport emissions.

Even with significant technological change and some public capital spending, transport emissions will continue to rise (as is forecast by the EPA). A 30% reduction in transport emissions between 2005 and 2030 would require emissions to fall by 4 Mt to 9.2 Mt. However, the EPA is forecasting that 2030 transport emissions will be 17 Mt. The detailed measures to achieve a target for a reduction in transport emissions have not been published.[27]

This begs the question as to whether Ireland's motorists should pay for the cost of purchasing carbon credits that can be used to offset the shortfall in meeting the national transport emission targets.

This would need to be an Exchequer neutral solution.

French President Francois Hollande were among the world leaders who issued a joint statement through the World Bank urging governments and businesses to set up carbon markets and tax carbon emissions.

[26] Department of Agriculture, Food and the Marine, *Agri-food Strategy 2025, Strategic Environmental Assessment, Draft Environmental Report*, June 2015.
[27] Department of Transport, Sport and Tourism, *Preparation of Low-Carbon Roadmap for Transport*, Issues Paper for Consultation, December 2013.

The critical question is whether this can be done under the ESD.[28] The Decision allows a Member State which is exceeding its non-ETS annual emission allocation (**AEA**) to transfer up to 5% of its allocation to other Member States. There is no limit on the amount of AEAs that Ireland could purchase. How precisely this is to be done, and importantly at what price the units might be sold has yet to be determined by the EU's Climate Change Committee. However, in theory, Ireland could purchase its shortfall in transport AEAs from another Member State.

A 20% reduction in transport emissions by 2020 (from 2005 levels) represents some 2.6 Mt. At the current price of €8.5/tonne[29] buying credits to cover this shortfall would cost the Exchequer/motorist some €22m, or some €8.84 per registered vehicle per annum. [30] Is this a more cost effective option (at least in the short term) than other proposed measures?

Given Ireland's circumstances, and with many Member States likely to exceed their non-ETS targets, a case could be made whereby (in the context of the negotiations on the revised ESD) the 5% limit might be increased to 10% so giving additional flexibility. The *modus operandi* of trading in AEAs needs to be clarified as a priority.

Given the current low price of carbon, the costs and benefits of Ireland making maximum use of the AEA trading platform by passing on the costs to the sectors concerned should be evaluated.

The Carbon Budget

The Exchequer receives payments and makes investments and the consumer too contributes to the goal of a low carbon society.

On the positive side of the equation, Ireland's share of the EU ETS auctioning revenues is some €41.6m (in 2013) and is expected to rise over the period to 2020.[31] These receipts (up to 2020) have been included in Exchequer budget annual forecasts to date. It is perhaps timely to open a discussion about the most appropriate distribution of ETS auctioning revenue after 2020 and specifically if this windfall should be used for example to co-finance energy efficiency investments; to buy offsets for compliance purposes; and/or to contribute to the achievement of public sector energy efficiency targets.

Carbon tax generates some €385m annually (2015). If the current rate of carbon tax at €20/tonne was increased by €10 this would generate some €214m in additional revenue, or nearly €1 billion over five years. Such a sum could help Ireland buy much of its non-ETS compliance. However, in line with

[28] Decision 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020 (Article 3.4).
[29] Argus European Emissions Market (24th October 2015).
[30] *Statistical Yearbook of Ireland 2012 Edition*, CSO. It is assumed that there are some 2.5 million registered vehicles in the State (2015).
[31] D/ECLG estimate (June 2014). See also Annex 1 to COM (2014) 659 final, October 2014.

Government policy these sources of funding will not be hypothecated to support low carbon measures and actions.

D/PER has assessed the risk of Ireland not meeting a much higher non-ETS burden sharing arrangement post-2020 and has concluded that ....*the scale of the adjustment (to the Exchequer) would be untenable and the costs of purchasing units to meet compliance could spiral*. The Exchequer (and the tax-payer) are exposed to additional and quite significant costs, including some €90m should - or more realistically when - Ireland fail to achieve its non-ETS targets [32] and upwards of €800m per annum for adaptation measures.[33]

Flood damage repairs (which cost some €1.5 billion between 2002 and 2013) are such an on-going risk that €430m has been provided in the 2016-2021 capital budget.[34]

From 2021, Ireland may have to pay (separate) fines of upwards of €600m if we fail to meet the EU's legally binding renewable targets.[35] In recognition of this risk, the Government has allocated some €444m in the Public Capital Programme (2016-2021) towards SEAI's energy efficiency programmes and the Renewable Heat Initiative. However, this allocation envelop broadly reflects SEAI's current capital budget for the delivery of its energy efficiency/RES schemes and programmes.

D/PER also needs to factor in Ireland's contribution to support climate finance in developing countries and whether - in line with the revised ETS Directive - if a contribution should be made from auctioning revenue.

If these costs were not a matter of concern, the ESRI/UCC modelling work suggests that the Exchequer could be exposed to fines running to 'billions of euros' in Ireland fails to meet its non-ETS emissions reduction targets.[36] Such a high figure is predicated on an assumption that the price of carbon rises from a forecast €74/tonne in 2020 to €336/tonne in 2050; the current price is nearer €10/tonne and the forecast price by 2030 is around €50/tonne.[37]

Finally, this year the electricity consumer will pay some €173.9m in a PSO levy supporting three REFIT (Renewable Energy Feed-in Tariff) schemes that are the primary means through which electricity from renewable sources is supported in Ireland; the corresponding figure for 2014/2015 was €94.3m reflecting low fossil fuel prices. Energy consumers also pay some €119m towards the PSO peat support.[38]

The following Table summarises these key inputs and outputs.

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[32] *Future Expenditure Risk Associated with Climate Change/Climate Finance*, Department of Public Expenditure and Reform, June 2014.
[33] *Coordination Communication and Adaptation for Climate Change in Ireland: an Integrated Approach*, EPA, 2013.
[34] *Building on Recovery: Infrastructure and Capital Investment 2016-2021*, Department of Public Expenditure and Reform, September 2015.
[35] D/CENR estimate, June 2014. This assumes a 4% shortfall on the overall 20% target.
[36] *op cit* DPER (June 2014).
[37] Thomson Reuters Point Carbon, *The MSR: Impact on Market Balance and Prices*, 2014.
[38] Commission for Energy Regulation, *Public Service Obligation Levy 2015/2016*, July 2015.

Table 3 - Ireland's Carbon Budget

Current Revenue	PSO Payments (2015/2016)	Exchequer Investment (2016-2021)	Additional Future Costs
€385m from carbon tax (2014)		€444m in energy efficiency and renewable energy	€600m in 2021 if Ireland does not meet its renewable targets to 2020
€41.6m from ETS auctioning revenue (2013)		€430m in flood defences	€91m in 2021 should Ireland fail to meet its non-ETS targets and 'billions of euros' if Ireland fails to meet its post-2020 non-ETS targets
	€173.9m in PSO REFIT subsidy		Cost of UN Climate Finance initiative
	€119.5m in PSO peat subsidy		€800m per annum in adaptation measures

KEY MESSAGE

Given the magnitude of these figures (and the assumptions underpinning them, especially the forecast carbon price) and the potential cumulative negative impact on the Exchequer's position, it behoves the next Government to complete a detailed risk analysis and an economic impact assessment of potential Exchequer exposure should Ireland fail to meet its current never mind its post-2020 non-ETS, renewable energy and energy efficiency targets. To this end, the National Expert Advisory Council on Climate Change might be asked to prepare a report on Ireland's carbon budget through to 2030 under several scenarios.

Energy and Climate Change

As energy accounts for some 70% of global GHG emissions, energy will be at the core of the Paris COP negotiations.

The International Energy Agency supports a strategy that could deliver a peak in global energy-related emissions by 2020 through energy efficiency, reducing the use of the least-efficient coal-fired plants, and increasing investment in renewable energy technologies.[39]

The Government's forthcoming White Paper on energy will, presumably, deal with implications for our future energy policy of the EU's October 2014 decisions. To be fair, the White Paper will probably have to base itself on assumptions, or alternative scenarios, on a number of important unknowns particularly, for example, as regards the outcome of the Paris COP; Ireland's effort share post 2020; and the Brexit risk and associated implications for future interconnection policy and for developing an export market for our renewable energy.

One way or another, future EU energy and climate change targets will have a direct and fundamental impact on Ireland's energy policy in at least three areas:

1. ETS emissions reduction in the energy sector
2. Delivering a new renewable target; and
3. Delivering a new energy efficiency target.

ETS

If Ireland's power generation emissions fall this will be reflected in the EU's ETS inventory only. Ireland's overall effort at reducing GHGs emissions, as the rules stand at present, has to ignore ETS emissions, and energy emissions in particular. As argued earlier, one could make the case this is not fair as does not reflect the national effort to reduce GHG emissions across the economy.

Using an annual linear reduction (**ALR**) of 1.74%, Irish ETS emissions will have to be reduced by some 2 Mt by 2020. Achieving the 2030 EU ETS target assumes that an ALR of 2.2% applies (as proposed by the Commission) and in such a scenario Irish ETS emissions will have to fall to 13.4 Mt by 2030. In 2005, Ireland's ETS emissions were 22.4Mt so meeting a 40% reduction by 2030 is not only a real challenge but is arguably unrealistic given the dominance of energy in the ETS mix and the long timeframe for energy infrastructure investment decisions. On the other hand, as is explained below, GHG emission reductions resulting from the greater use of renewable energy and higher energy efficiency could bridge much of this 'distance to target'. As the ALR is set at EU level and applies equally to all Member States, there is in reality no wriggle room in terms of negotiating a special deal in relation to the application of a lower ALR for Ireland.

Energy ETS emissions were 15.9 Mt in 2005 and will have to be reduced by 40% i.e. by 6.3 Mt by 2030. This is equivalent to the current GHG emissions from the coal-fired Moneypoint plant and suggests that

[39] *Energy and Climate Change*, IEA, 2015.

changing the fuel mix at this station must be one of the options to be addressed in the White Paper. The availability of Corrib gas as a feedstock at Moneypoint and at other plants will also be a factor, not least in terms of the imperative of energy security.

The level of energy emissions is closely correlated to economic activity so if the economy grows by 25% over the decade to 2030, the operators of energy plants will struggle to comply with the revised ETS rules.

The revised EU ETS Directive and the revised ESD should take the totality of effort at Member State level into account. Thus, for example if Ireland is making good progress in meeting its ETS energy emissions reduction targets and is likely to meet its 2030 ETS target, this should be taken into account not only in relation to setting the non-ETS effort sharing burden but in relation to the determination of national renewable and energy efficiency targets. Given that achieving the EU's overall emissions reductions target is the primary policy objective Member States should not be straight jacketed into a compliance scenario that does not reflect the entire national effort across all mitigation options. To be fair, the European Commission seems to be open to this argument.

Renewable Energy

In 2013, renewable electricity generation in Ireland was some 20.9% of total production and some 20% short of the 2020 40% target. The EU binding renewable energy target for Ireland covers three sectors – electricity, heating and transport – with a 16% target for electricity bearing the lion's share. To meet the 40% electricity target by 2020, current levels of deployment of onshore wind (170 MW per annum) will need to rise to 240 MW per annum and higher levels investment in biomass, CHP and waste to energy will also have to be delivered. If Ireland achieves EU target of 40% renewable electricity consumption by 2020, then GHG emissions savings could be some 3.8Mt, or nearly 6.7% of total Irish emissions.[40]

In contrast to this progress, the RES-T target of 10% may not be met (as we are at 4.9%) unless the proposed biofuels obligation scheme is a success. [41]

It is also possible that we will not meet the RES-Heat target of 12% by 2020 as a major investment in bio-energy will be required to improve the current 5.7% penetration rate and there is no evidence yet that this level of project financing is in the pipeline. A critical factor is the success or otherwise of the Renewable Heat Incentive, which was proposed as part of the bio-energy strategy.

As Ireland has different natural advantages to other Member States in relation to the deployment and use of some renewable energy, the next Government should make a strong case once negotiations get underway in relation to the post-2020 renewable energy Directive that setting sub-targets is not an optimal

[40] SEAI, *Quantifying Ireland's Fuel and Carbon Emissions savings from Renewable Electricity in 2012*, May 2014.
[41] It is proposed to increase the BOS to 7%-8% from 2016. The BOS is the main policy instrument to deliver the RES-T target.

solution. We should accept the overall target (27% for the share of renewable energy consumed by 2030) on condition that we are given the flexibility to achieve this level of ambition through the most cost-efficient measures that are feasible. For example, is it a carbon efficient solution to import bio-fuels simply because we have a RES-T target to meet?

As Ireland's National Renewable Energy Action Plan (developed in close consultation with stakeholders) is facilitating the delivery of current targets, it will no doubt form the basis for securing implementation of the post-2020 renewable energy targets.[42]

Remarkable progress has actually been made in Ireland in recent years in the area of integrating very large scale intermittent - largely wind - generation in a small and isolated synchronous electricity system. We are at the leading edge from a technology perspective and this has been recognised internationally. We are not like Denmark, whose system is linked in directly to two major geographic systems - NordPool and Central Europe - which can accommodate Denmark's very large wind generation levels without hitting system stability or security of supply problems.

Realistically, looking forward to 2030 we have to acknowledge that that there are limits to how much beyond the 40% target our system can be expected to accommodate without either (i) providing a commercial outlet for physical exports of our renewable generation, or (ii) increasing the role of sources other than wind for meeting our renewables obligations. A further factor to bear in mind is the public acceptability or otherwise of the sheer scale of physical investments in wind turbines and overhead lines required to significantly exceed a 40% penetration level.

Under the current RES Directive it is possible for Member States (say Ireland and the UK) to meet their respective targets by buying compliance from each other. [43] For instance, using the technique of **statistical transfers**, an amount of renewable energy could be deducted from one country's progress towards its target and added to another's. This is an accounting procedure and no actual energy changes hands. The beneficiary country pays a cost but the price will be more cost-efficient than a new build. Ireland and the UK also have the option of co-funding a **joint support scheme** to spur RES-energy production in one or both jurisdictions for the purposes of meeting their respective overall RES targets post-2020. This form of cooperation could involve common REFIT tariffs, a common feed-in premium, or a common quota and certificate trading regime. **Joint projects** (such as the Midlands' wind farm projects) are a third option. Once Ireland has determined its 'compliance gap' with the 2030 RES targets, a cost benefit assessment of these options should decide the preferred policy approach.

[42] National Renewable Energy Action Plan, Department of Energy, Communications and Natural Resources, July 2010. Ireland submitted a first progress report in January 2012 the second progress report in February 2014.
[43] European Commission Staff Working Paper, *Guidance on the use of renewable energy cooperation mechanism*, SWD (2013) 440 final, November 2013.

Energy efficiency

Ireland has a clear, transparent and comprehensive policy on energy efficiency that is articulated through the National Energy Efficiency Action Plan.[44]

Carbon savings arising from investments in energy efficiency measures also contribute to GHG emission reductions. The national target to reduce energy demand by at least 20% in 2020 could result in GHG emission reductions of a further 7.7 Mt per annum, or nearly 13.6% of total Irish emissions. To date, 12,000 GWh has been saved (representing an annual reduction of €700m in imported fossil fuels). To meet the target of a reduction of 32,000 GWh (and some €2.5 billion in savings in terms of imported fossil fuels) around €1 billion a year needs to be spent including the retrofitting some 100,000 home every year over the next five years. In addition, the Energy Efficiency Obligation Scheme (under Article 7 of the Energy Efficiency Directive) places a legal obligation on energy suppliers to achieve an annual saving of 1.5% of annual energy sales to final customers. [45]

As between €62m to €83m per year in Exchequer expenditure has been allocated to energy efficiency (and renewable energy) it seems unlikely that Ireland will fully meet what are (as yet) non-binding targets.

Electricity demand in Ireland in 2014 was 8% below the level of 2007 (and this is reflected in a fall in energy GHG emissions) at a time when €4 billion has been invested in additional generating capacity and interconnection, including 1300 MW in carbon efficient CCGT plants. We have more than a comfortable margin in aggregate generation capacity given medium term economic growth projections. A significant investment in reprofiling some of this capacity - from baseload to more flexible operation - will be required however, and possibly more effective market signals needs to be given to less efficient plant. Investment decisions (including those of future grid connections) will need to take account of Ireland's progress in meeting its RES and energy efficiency targets by 2030. What is needed is a clear statement of policy about the 2030 target mix of fossil fuels/renewable energy. Would a 50/50 conventional/ renewable mix be sufficiently ambitious and realistic?

Finally, the role of natural gas as an alternative to more carbon intensive fuels in the electricity, transport and sectors should not be overlooked. We have invested massively over the years in our gas transportation network with a relatively small customer base. We now have Corrib gas coming on stream in addition to our 95% reliance on North Sea gas. We must make the best use of this network if we are to avoid major reductions in throughput and an associated spiral of rising unit network costs for consumers.

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[44] National Energy Efficiency Action Plan, third version, Department of Energy, Communications and Natural Resources, 2014

[45] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, OJ L 315, 14 November 2012.

In conclusion, any discussion on Ireland's overall response to the 2030 framework needs to assess how a fall in energy related emissions flowing from RES and energy efficiency targets set at EU level will contribute to the overall reduction of national non-ETS and ETS GHG emissions. By 2020, through the use of more renewable energy and greater energy efficiency, Ireland's GHG emissions are forecast to fall by 11.5Mt; this is the equivalent of 20% of forecast 2020 emissions. What is the collective potential through to 2030?

KEY MESSAGE

A primary objective of the Government's White Paper will be to re-position and re-align national energy policy to 'fit' with what in all probability will become legally binding targets at EU level for ETS energy emissions, use of renewable energy and energy efficiency in the period to 2030.

Ireland's Strategic Issues at EU Level

Ireland has a national policy position on climate change [46] - a national low-carbon transition objective for 2050 - but will not have a fully developed and integrated energy and climate change policy reflecting the 2030 framework until a White Paper on energy and a National Mitigation Strategy are published.

KEY MESSAGE

While political decisions agreed at EU level are designed to facilitate Ireland moving to a pathway to deep decarbonisation as a medium term objective some significant amendments, as follows, to the Commission's proposals need to be secured.

1. **The effort sharing allocation post-2020 should include a wider range of criteria and not be based on historical GDP per capita data. Ireland should endeavour to secure no more than a minus 10% burden share.**
2. **A LULUCF envelope/pillar should be designed and a price set for forest carbon.**
3. **To give effect to the principle of *a fair sharing of efforts between Member States which reflect their specific circumstances and capacities* the combined GHG emissions reduction in both the EU ETS and non-ETS sectors should be taken into account in determining Ireland's overall compliance levels.**
4. **The Commission should quantify the potential savings in GHG emission reductions at Member State level if higher RES and energy efficiency targets were agreed and assess**

[46] Department of the Environment, Community and Local Government, *National Policy Position on Climate Change*, April 2014.

how these reduction levels should be reflected in revised targets through to 2030 in the ETS and non-ETS sectors.

Driving the Agenda Beyond Compliance

Securing a lower burden share post 2020; using offsetting options where these are cost effective; and driving compliance to meet the EU's targets is the minimum of what one would expect of the next Government.

There is an alternative more entrepreneurial approach that could position Ireland as one of Europe's green economies.

The following four projects (that should be the subject of a full business case) could have a dramatic impact on the energy ETS, non-ETS, energy efficiency and renewable targets if the evidence pointed to cost efficient investments.

1. **Convert Moneypoint to a full biomass plant.** As coal is phased out there would be a potential annual carbon saving of some 6 Mt a year (and the ESB would be able to monetise the value of the unused allowances). In addition, such an investment decision would more than help Ireland meet its RES-E target. Imported biomass may be more expensive than coal but the plant has jetty and storage space for this new feedstock. This option should not involve any Exchequer expenditure nor should a biomass REFIT be introduced for a plant of this scale. .
2. **Plan to have the necessary infrastructure in place so that every new car in Ireland in 2030 will be an electric vehicle.** The annual carbon saving in the transport sector would be some 8 Mt. This is not a new idea.[47] However, to deliver such a high level of ambition, the manner in which the current project is being delivered would need to be overhauled with global EV manufacturers (and not the energy sector) invited to Ireland to drive delivery.
3. Once the EU legislates for LULUCF the carbon value of new afforestation could be monetised as the credits for forest carbon sinks may be used as an offset against agriculture emissions. Unlocking this value will be attractive to investors. Therefore **by 2030, the Government should (through Coillte and private operators) promote much enhanced afforestation levels that will generate some 45 Mt in carbon sinks between 2035 and 2050**. Again, this is not a new idea.[48] But it requires a dedicated and motivated delivery team.

[47] *Drive for Zero: Electric Vehicles are a Winning Proposition*, Report of the Oireachtas Joint Committee on Climate Change and Energy Security, April 2009, rapporteur, Simon Coveney, T.D.
[48] *Report of Public Hearings on Sustainable Forestry and Forest Carbon Sequestration*, Report of the Joint Committee on Climate Change and Energy Security, January 2011.

4. It has been estimated by the SEAI that investing in energy efficiency, sufficient to bridge the gap to the 2020 energy efficiency targets, will generate savings of some €11 billion. More than 15 TWh of primary energy savings potential remains after 2020.[49] **It is now time to plan for the investments needed to achieve deep retrofitting across the entire economy by 2030.** In order to meet the targets set under the Energy Efficiency Directive the country's energy generators should be required not only to play a lead role in this decarbonisation endeavour but to make a financial contribution towards the costs of the agreed and priority cost efficient solutions. A project of such a scale requires not only a dedicated project delivery team of a size not previously contemplated but a fundamental re-thinking of our approach to energy efficiency.

As these projects fall under the responsibility of four Departments, three commercial semi-states, and at least five State agencies - never mind all of Ireland's local authorities - there may a temptation to say it will not happen.

Provided it makes commercial sense and if implemented by 2030 these four projects could go a very long way in securing Ireland's future as a low carbon economy.

Low Carbon Leadership

Four Government Departments (ECLG, AFM, TSS and ECNR) are working on sectoral strategies that will be informed by the NMP.

A White Paper on Energy,[50] FoodWise 2025 [51] and the NMP will all announce how Government policy objectives on climate change and energy will be delivered.

All these issues are interdependent; there are on the opposite sides of the same coin.

The challenge facing the current Government as articulated by the Taoiseach at the September 2014 UN summit on climate change is the same as that facing the next Administration:

> *Leaders must show conviction, clarity, courage and consistency in their actions. Conviction........that targets are fair and achievable. Clarity.....in knowing that our targets will keep the rise in global temperatures below 2°. Courage......to step up to the mark. Consistency.......in implementing policy, and creating a credible track record.*

[49] *Unlocking the Energy Efficiency Opportunity*, SEAI, June 2015. These benefits flow from an investment of over €3 billion which delivers a NPV of €8 billion.

[50] In May 2014, the Green Paper on Energy Policy in Ireland was launched, opening the way for a public consultation process on the future of energy policy in Ireland for the medium to long-term. The three key pillars of energy policy (as identified) are to focus on security, sustainability and competitiveness. Over 1,240 written submissions were received. In September 2014, DCENR launched the stakeholder engagement phase. The White Paper is expected to be published in a matter of weeks.

[51] Department of Agriculture, Food and the Marine, *FoodWise 2025: a ten-year vision for the Irish agri-food industry*, 2015.

The directors who serve on the boardrooms of Ireland would be well-advised to read what the Governor of the Bank of England had to say about climate change and who concluded: *climate change will threaten financial resilience and longer-term prosperity.*[52]

All medium to large sized Irish companies - public and private - (i.e. those employing more than 250 people) should not only disclose what they are emitting but how they plan their transition to the net zero carbon world of the future. To this end the work of CDP Ireland is to be commended.[53]

Leaders also include the business community who of late (with some exceptions) have been content to let the national discourse on climate change drift into near silence. It is time that climate change and energy are put back centre-stage of Irish politics.

While Cabinet Committees can provide a measure of co-ordination, in the absence of a Department responsible for the decarbonisation agenda there is a danger that the collective effort (and genuine political will) to affect change will not achieve its full potential.

Benchmarked against other countries, the next Government might be mindful set up a Department for Climate Change and Energy.[54]

Consideration should also be given to extending SEAI's remit (with a supporting budget) to cover the coordination of the delivery of the NMP. In that way SEAI's technical expertise could assist the decarbonisation effort across the whole of Government.

To secure engagement with the business, construction, agri-food and transport sectors (i.e. those most affected by climate change mitigation measures) and to copper-fasten their unequivocal support, the Government should also set up a Low Carbon Task Force, chaired by the chairman of the National Expert Advisory Council on Climate Change, with a remit to work with Government and its agencies to ensure that all stakeholders buy into the transition to a low carbon economy, including measures to promote renewable energy and energy efficiency.

[52] Speech by Mark Carney, Governor of the Bank of England, to Lloyd's of London, 29 September 2015. One of his key points was that the exposure of UK investors to 'stranded' fossil fuel assets (i.e. those on balance sheets that will never be exploited) is potentially huge.

[53] CDP (formerly the Carbon Disclosure Project) is the world's leading sustainability reporting platform. A group of leading Irish companies has come together under the banner of the CDP Ireland Network to promote the development of Ireland as a low carbon economy and to assist in developing an economic system that operates within sustainable environmental boundaries.

[54] Department of Energy and Climate Change (UK), Ministry of Climate, Energy and Building (Denmark), Department of Climate Change and Energy efficiency (Australia), and the Ministry of the Environment and Energy (Sweden).

Conclusion

It is to be hoped that Ireland's renewable energy, energy efficiency, climate change and agriculture emissions policies and supporting taxation and subsidy arrangements will be better aligned and somewhat more consistent than is the case today.

As the OECD has pointed out clear and credible government policies will spur innovation, encourage investment, change consumer behaviour and foster entrepreneurship as we start the transition to a low carbon economy.[55]

KEY MESSAGE

Policy has been set at EU level. What is absent is an accountable, funded and cost effective low carbon action plan to 2030. There is a compelling case that the next Government drives this agenda by appointing a senior Minister with responsibility for the task of de-carbonising the Irish economy across the whole of Government in collaboration with all stakeholders and consumers. Business leaders too need to take the climate change agenda far more seriously than has been the case of late.

[55] *Aligning Policies for a Low-carbon Economy*, OECD (2015).

The Economics of a new Programme for Government

Dr. Stephen Kinsella and Dr. Ronan Lyons

1. Coming Full Circle

Ireland's recent economic history has been anything but dull. A period of economic stagnation during the late 1980s and early 1990s gave way to a period of very strong, export led, economic growth in the late 1990s, typically referred to as the Celtic Tiger period. The Celtic Tiger[56] period was characterised by low inflation, robust real GDP growth, falling long-term (and short-term) unemployment, inward migration, and a large increase in the degree of financialisation of the economy as measured by the flow of new credit relative to GDP. This period of strong economic growth led to the emergence of a number of capacity constraints, including in real estate but also in many areas of capital expenditure, with a rising population with increasing demands on health and education systems, in particular.

A 2nd phase of the Celtic Tiger, roughly dating from 2002 to 2007, saw a rapidly growing economy, but based now not on export led growth but on expanding domestic credit[57]. This was facilitated by Ireland's entry into the European Union's Economic and Monetary Union, which gave Irish retail banks much easier access to flows of global savings. Combined with a relaxed approach to the regulation of these gross financial flows, the requirements for a 'Minsky moment' were now all there in the Irish economy. Any Minsky[58] moment requires:

1. Increasing flow of credit to households solves, businesses, and the government
2. Increasing expectations on the part of households businesses and the government especially on asset prices and living standard increases
3. Incoherent or underdeveloped micro-prudential policies, especially around credit for asset purchases.

Clearly the Irish economy in this period was characterised by all three.

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56 Riain, Seán Ó. *The Rise and Fall of Ireland's Celtic Tiger: Liberalism, Boom and Bust*. Cambridge University Press, 2014.

57 Nyberg, Peter. "Misjudging risk: causes of the systemic banking crisis in Ireland." *Ministry of Finance, Dublin, March* (2011): 42.

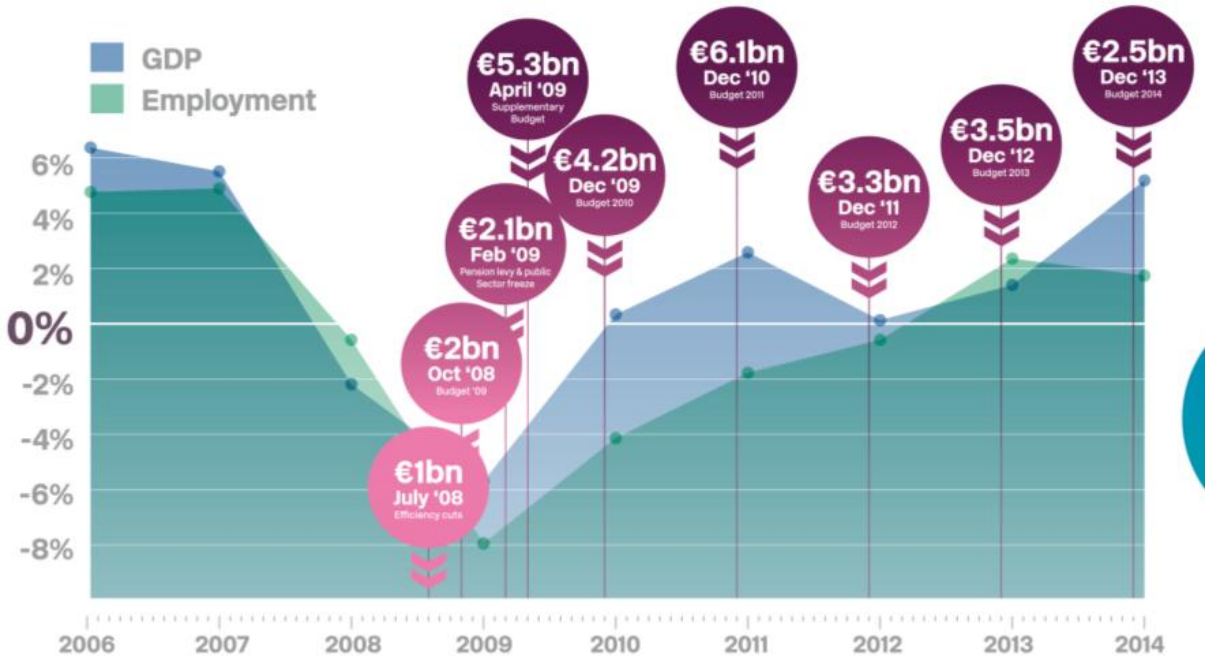
58 Minsky, Hyman P, and Henry Kaufman. *Stabilizing an unstable economy*. New York: McGraw-Hill, 2008.

The primary economic policy challenge of this 2nd phase of the Celtic Tiger was how to manage expectations in a rapidly growing economy. The major policy error was the lack of a macro prudential policy[59] in a country adjusting to life without its own interest rate, and with a relatively underdeveloped set of micro-prudential regulatory tools, of which more later. While this is a policy error that is shared with many other countries across the developed world in the same period, the combination of Ireland's small size and recent rapid growth meant that the error led to far greater costs in Ireland than in most other countries[60].

The 2002 – 2007 period was followed by a period of economic crisis, roughly dating from 2007 to 2012. During this period of crisis, the focus for economic policymakers was simply on survival. The unemployment rate grew from less than 5% to 15%, significant net in migration gave way to significant emigration, and the price of various assets – particularly in real estate, such as housing and land – collapsed. The major policy error of this period was the socialisation of existing debt in the Irish financial system. Again, this was an error that Ireland shared with other countries – but again its costs in Ireland were far greater than the typical developed country during this period. With the benefit of hindsight, it is likely that guaranteeing future loans to Irish banks, and all deposits on the books of the covered banks in September 2008, would have been a far cheaper way of ensuring the survival of the Irish financial system than guaranteeing all bank liabilities[61]. Such a large guarantee, in a time of huge economic uncertainty across Europe and across the world economy, placed too great a strain on the Irish government's ability to pay its way. This led to a reliance on non-market funding, in particular on the so-called Troika of the IMF, the European Central Bank, and the countries European Union partners.

59 Borio, Claudio EV, and Ilhyock Shim. "What can (macro-) prudential policy do to support monetary policy?." 242 (2007).
60 Goodhart, Charles AE. "The macro-prudential authority: powers, scope and accountability." *OECD Journal* (2011): 97.
61 See the findings of the Committee of Inquiry into the Banking Crisis, available at <https://inquiries.oireachtas.ie/banking/>.

Figure 1. Irish fiscal adjustment, 2008-2014

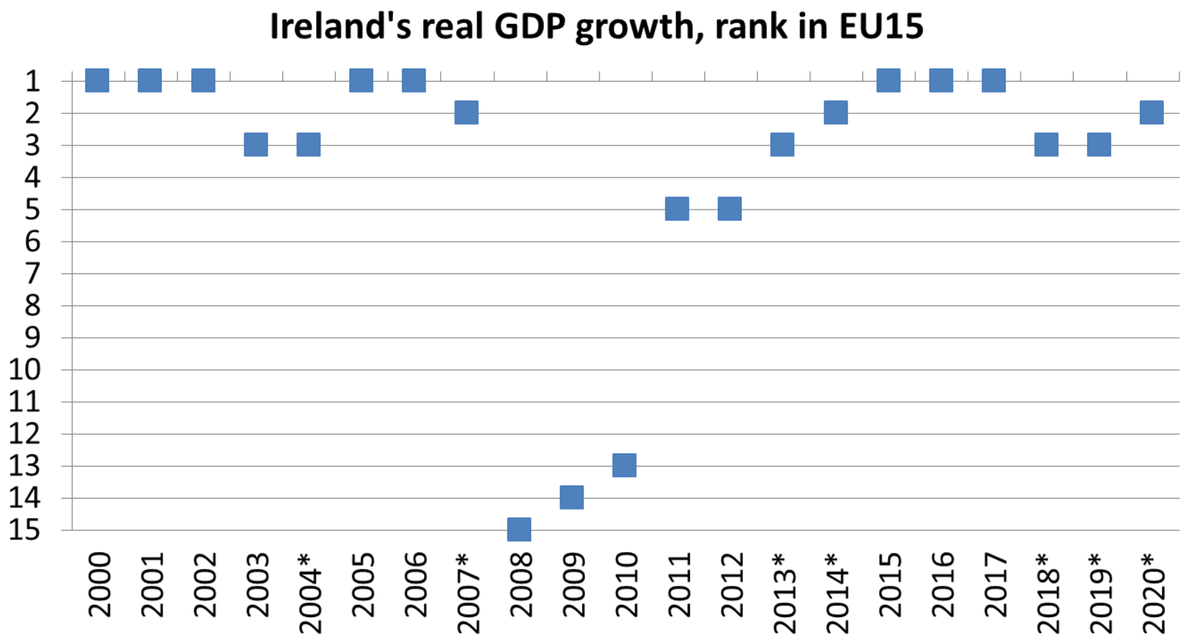


The economic priorities of the 2011-2016 government centred on the readjustment of public spending, in particular balancing the public finances, and the restoration of economic confidence. Figure 1 shows the sheer size of the fiscal adjustment during the period 2008 to 2014, with €30 billion taken out of the Irish economy through a combination of lower public spending and greater taxation, implemented through 9 different budgets and other supplementary measures.

Even allowing for the somewhat unique circumstances of Irish national accounts, where traditionally GDP and increasingly GNP reflect the activities of large multinational firms active in Ireland, the Irish economy has rebounded faster than almost any policy expert or commentator predicted. Figure 2 shows Ireland's real GDP growth, ranked in the EU 15, from 2000 to 2020, with the figures after 2015 based on the IMF October 2015 World Economic Outlook report[62].

[62] "IMF World Economic Outlook (WEO): Adjusting to Lower Growth" 2015. Accessed 26 Apr. 2016 <http://www.imf.org/external/pubs/ft/weo/2015/02/>

Figure 2. Irish economic growth, ranked among EU15 states (* denotes Luxembourg one of the states ranked above Ireland)



It shows that up to 2007 Ireland was one of Western Europe's fastest-growing economies, more often than not the fastest growing economy in the EU 15. For 3 years – 2008, 2009 and 2010 – Ireland's economic growth ranked among the worst in the EU 15, as the size of the economy shrank significantly in these years. From 2011, Ireland's economic performance relative to its peers has improved and by 2015 Ireland was once again Western Europe's fastest-growing economy.

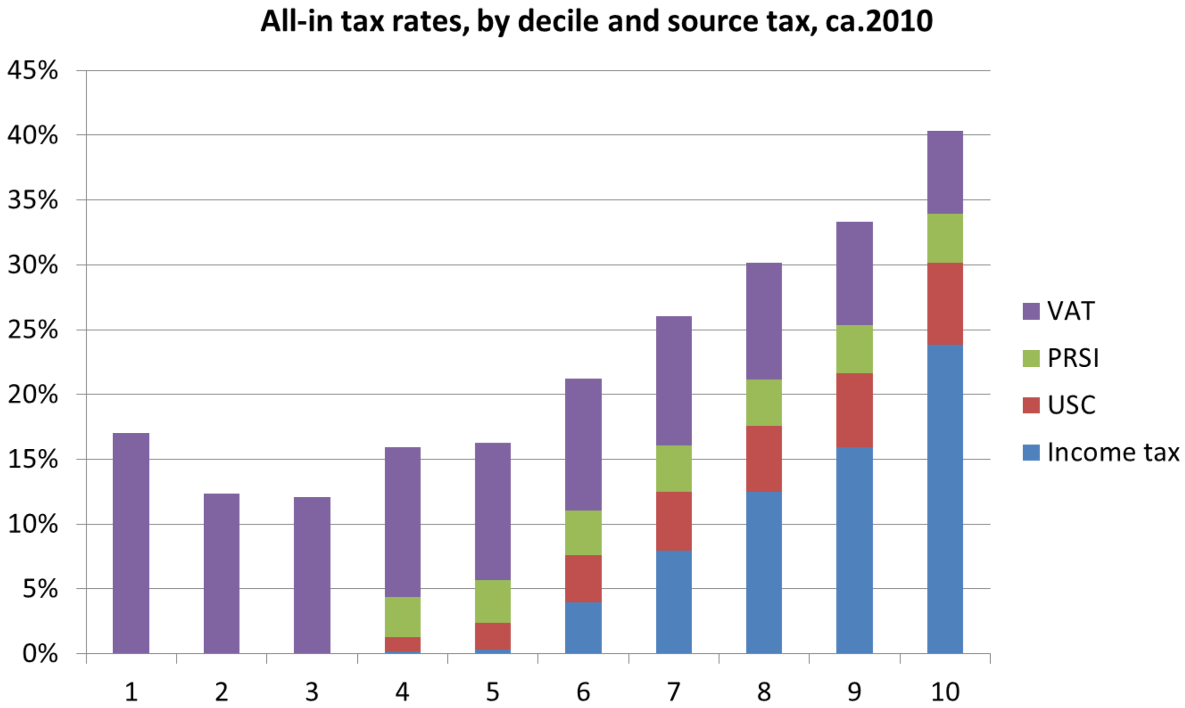
The challenge then for economic policymakers over the period 2016 to 2020 is a challenge very similar to the period from 2000 to 2007: how to harness economic growth for the benefit of society at large. Within this challenge, there is the problem of managing expectations and also distributional concerns both spatially and across the income divide. In addition, legacy issues around negative equity and long-term unemployment, especially in construction, will form a context that is very relevant politically as well as economically.

Figure 3. Irish government receipts, by heading, 2002-2015

From the fiscal policy perspective, the nature of Ireland's public finances in 2016 are very different from those that prevailed prior to the economic crisis. In particular, income tax and VAT are now the dominant forms of revenue raising relied on by the Irish State. Figure 3 shows the breakdown of Irish government receipts across 5 main headings from 2002 to 2014. In 2006, VAT and income tax comprised 57% of all government receipts, whereas by 2014 they comprised just under 70%. Meanwhile taxes on wealth, broadly defined, including capital gains tax and acquisitions tax, stamp duty and Local Property Tax, have fallen from 16% of all government receipts to just 7%.

This is particularly problematic given the regressive nature of VAT. Figure 4 shows the all-in tax rate by decile and by source tax in the middle of the crisis. The system is broadly progressive in nature with the wealthiest 10% of the population paying 40% of their income in tax and those in the bottom half of the income distribution paying roughly 15%. Nonetheless, a breakdown by source tax shows VAT to be clearly regressive, taking over 15% of the income of the poorest 10% compared to a little bit more than 5% of the income of the richest 10%.

Figure 4. All-in tax rates, by decile and source tax, 2010



With an already extremely progressive income tax system, and an extremely regressive VAT system, the obvious gap in the Irish tax system is wealth taxes. It is these wealth taxes, that could restore state capital spending, which has fallen substantially as a fraction either of the whole economy or even just of all government spending since the economic crisis. This is shown in figures 5 and 6. Figure 5 charts spending by type as a fraction of GNP and as a fraction of all voted government spending. Throughout the entire period from 1983 to 2007, voted capital spending comprised typically between 15 and 20% of all government spending. By 2013, however, this had fallen to less than 10%.

Figure 6 shows the potentially dangerous change in the emphasis of government spending, and, in particular, government borrowing, since the economic crisis. During the later Celtic Tiger period the Irish government was running a current account surplus on its day-to-day spending that funded capital account deficit to invest in projects that would pay off in the future. In restoring balance to the Irish government finances in the last couple of years, the government has effectively sacrificed spending for the future, with capital spending largely in balance by 2014, while a significant current account deficit of approximately 7% of GNP persisted.

Figure 5. Government spending, capital and current, 1983-2013

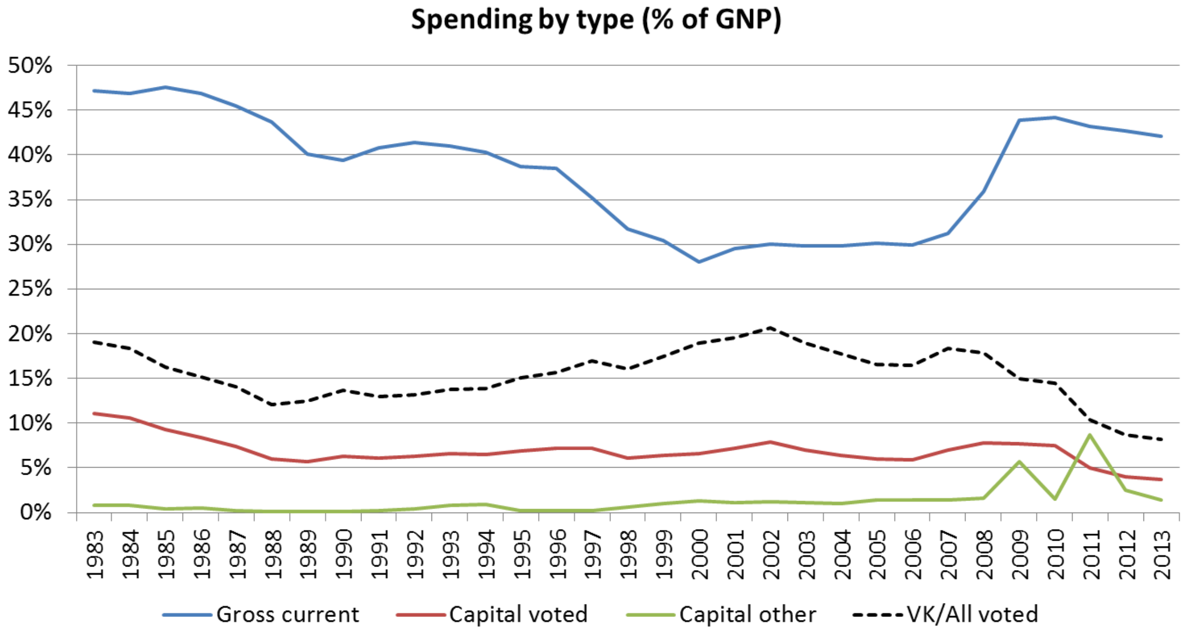
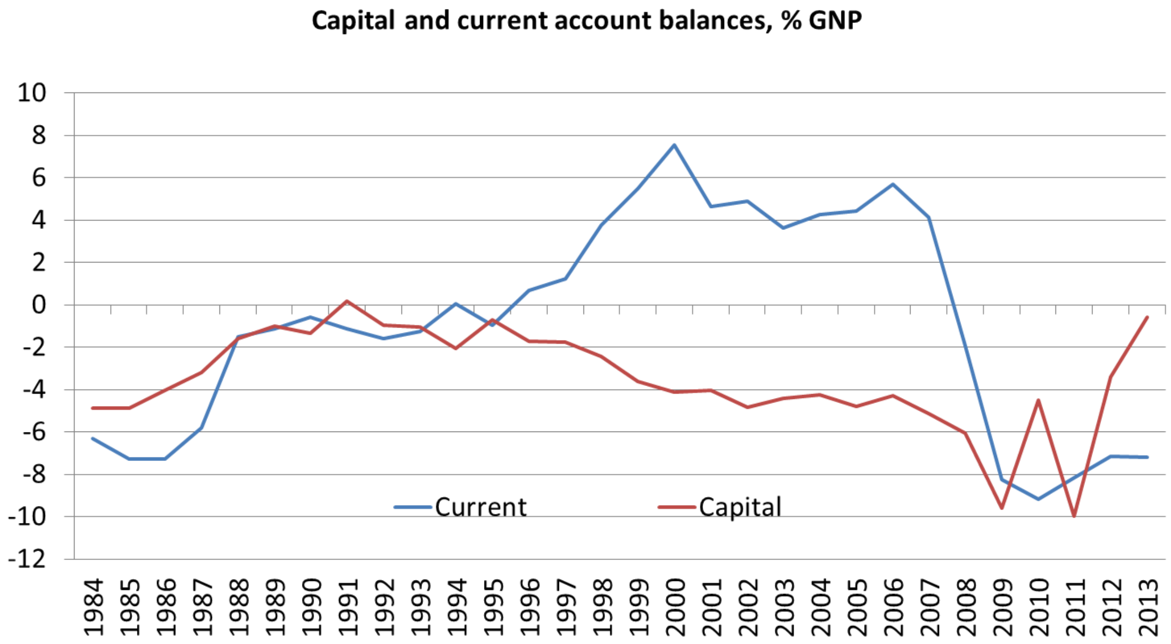


Figure 6. Capital and current account balances, 1984-2013



2. Guidelines for Public Spending

2.1 Booms, bubbles and economic policy

It is worth distinguishing between inevitable boom/bust cycles and completely avoidable episodes of bubbles followed by a crash. Inevitable boom/bust cycles are the product of the ebb and flow of human confidence. They are irregular in size and duration but are inevitable, in the sense that whatever the trend rate of economic growth, there will always be times when confidence is above or below that trend level. Bubbles, on the other hand, stem from policy failures, in particular excess leverage taken on by the real economy from the financial system.

At its heart, leverage is about the level of debt as a fraction of all capital. The two forms of capital are debt and equity. Equity is capital priced in percentage terms, for example a 10% share in whatever profit enjoyed and nothing if there are no profits. Debt, however, is capital priced in monetary terms, for example a commitment to repay a certain number of Euro every month for a defined period. Clearly, if there is too much debt relative to equity in the financial system, an economic recession can be turned into something much worse as debt is inflexible.

Another important aspect to understand with leverage is the degree to which institutional specificity defines its major effects. For example, take two small open economies, Ireland and Iceland. In both cases large capital flows from abroad destabilised the economy. In the Icelandic case, these capital flows came via the current account into the non-financial corporate sector, And then to the households and the government. In the Irish case, the capital flows went, not to the non-financial sector, but primarily to the household sector. The reason that this matters is because there are different approaches to deleveraging, via either the household sector or the non-financial corporate sector. Rather than simply having its own sovereign currency, the key feature of the Icelandic crisis after 2008 was who, specifically, held the leverage.

As mentioned above, the major policy error during the so-called Great Moderation of the 1990s and early 2000's was a lack of macro prudential policy. This left many economies with far too much debt and unable to respond flexibly once the boom inevitably turned to bust. It is to be hoped that across the developed world, including Ireland, the severity of the Great Recession that followed the so-called Great Moderation has shown policymakers the importance of avoiding excess average and therefore steering economies away from entirely avoidable bubble crash episodes.

However, the question remains how economic policymakers manage boom bust cycles. Economic theory highlights three traditional tools for managing boom bust cycles. These are trade policy, monetary policy, and fiscal policy. The classic example of a trade policy response to an economic recession was in the early 1930s where countries responded to negative economic shocks by trying to stimulate domestic production. While rational for countries individually, this was to result at global level in a negative sum game resulting in the creation of conditions which would ultimately lead to the Second World War. The post-war economic history of the world has been about avoiding such policies in response to economic busts. As Ireland is both a member of the European Union and the World Trade Organisation, using trade policy to manage boom bust cycles is no longer an option.

Similarly, monetary policy is no longer an option for Ireland to ameliorate the worst effects of boom bust cycles. Now that Ireland is a member of the Eurozone, interest rates are set with respect to the conditions in the Eurozone as a whole rather than in specific countries. As a small member state, Ireland is similar to Delaware's position within the US dollar zone in terms of the scope for monetary policy to react to local economic conditions.

This leaves fiscal policy as the so-called last man standing when it comes to managing the inevitable boom bust cycles that will affect the Irish economy in the years ahead. Somewhat surprisingly, economic theory has been largely quiet about the details of using fiscal policy, traditionally treating all fiscal policy is similar in nature. Given Ireland's economic situation, a key priority for economic policy-making in the new government must be to move beyond fiscal policy as a black box with the multiplier, and understanding instead how fiscal policy, and components within fiscal policy, can be used to both meet social needs and to minimise boom bust cycles.

At the European level, a fourth branch is being developed that is centred on the interaction of macro and micro prudential policies. While it is too early to say whether these policies will have any impact in the Irish case, it is clear that the new programme for government cannot assume these policies will be sufficient for a crisis which occurs in say, 2018. We... the longer term issues of whether micro and macro prudential policies will actually work to stem the tide of crisis after 2020 for future work.

2.2 Recasting fiscal policy as tool similar to monetary policy

We suggest that there is a clear theoretical channel through which fiscal policy can be reinterpreted as analogous to monetary policy. An example may motivate our discussion. Suppose that there is an economy, such as Ireland's, that faces an interest rate determined elsewhere. Policymakers in that economy provide goods and services to the local economy through fiscal policy. Suppose, for example, that there are just two types of fiscal goods, infrastructure goods and redistribution, and again, for simplicity, assume that infrastructure increases future output while redistribution does not. If infrastructure makes up 40% of all public spending, and increases future output by 10%, each Euro of public spending delivers a social return of 4% (40% of 10%).

In the real world, however, there are a large multitude of different publicly provided goods and amenities, including projects that are clearly investment in nature (e.g. transport infrastructure), spending that is clearly redistributive (e.g. the rent supplement), but in between spending that corresponds to the provision of what might be termed non-market goods. These include education and healthcare, but also amenities such as parks and nature trails, historical landmarks and beaches.

Each of these spending elements provides a benefit of some kind to society, even if such benefits are currently very poorly measured or even understood: it is uncontroversial to suggest that the government should avoid public spending of a certain kind where it cannot even be argued that there is any social return on that spending. If, instead of thinking of just two types of fiscal goods, we think of a very large number of fiscal goods and services, each with its own social return, these can then be ranked from highest to lowest social return.

What matters, therefore, is a socially acceptable ranking system by which the social return is calculated in a given year. This is a technical challenge but not one beyond the policy-making apparatus of the Irish state. Public spend could then be organised around this principle, namely that taxpayer money should go first to those areas where they would have greatest impact. But this principle can also be used as a way to stabilize the economy. Suppose that the project with greatest social return is estimated to have €1.50 benefit for every €1 spend, i.e. a return of 50%, while the project with the lowest impact has a return of just 1%. A straightforward rule for public spending is thus to only provide those goods where the social rate of return is greater than some benchmark rate of return.

This benchmark rate of social return would necessarily be at least as large as prevailing interest rates, so that policymakers do not engage in wasteful spending. We are in effect arguing for a " Taylor rule" for fiscal policy, analogous to the rule determining interest rates, however, we do recognise that a threshold rate of return would be determined, and this could vary. It could be market-determined, and thus automatically countercyclical in its impact on the real economy: when a recession hits, the interest rate falls and thus those fiscal goods with a return higher than the new interest rate but lower than what prevailed before, stimulating the economy.

Alternatively, a threshold social rate of return could be determined by policy, similar to benchmark interest rates currently. Whereas an independent Central Bank sets interest rates in many economies, so too an independent “Central Fiscal Council?” could set the threshold rate to reflect local conditions, free from political interference.

Economic policy-making in Ireland is currently made on what could be termed a cost basis. The limits of this are obvious, particularly around budget time. For example, cutting the allowance given to caregivers in principle lowers costs and in principle could be thought of as an improvement in the government finances. However, as caregivers and others would point out, this is likely to bring more people into the public health system, and could easily result in far greater costs being imposed on taxpayers, making the move self-defeating.

During the lifetime of the next government, economic policy should move away from a cost based accounting approach to a more holistic, and intertemporal, economic approach that takes account of estimated benefits as well as costs. In practice, this means that all government departments and programs need to be able to state at least a lower bound of the social return derived from the goods and services they provide for society. For the two biggest areas of government spending, education and healthcare, a substantial international literature exists trying to measure the full social return derived from public monies spent in these areas. For other areas of government spending, a range of methods have been developed to help achieve the same result. Some of these are described in brief in later sections.

A second key priority for the economic policy-making system in Ireland over the lifetime of the next government concerns for monies raised rather than where money is spent. In particular, the taxation system should link money raised with money spent. To some extent, there are elements of the public finance system that had been moving in this direction in recent years. Local Property Tax is an attempt to connect households with the benefit of the social services they receive in the area around them water charges are an attempt to ring fence money in order to secure the water infrastructure in Ireland.

However, this principle needs to be extended far more broadly, in order to ensure that those areas of public spending that deliver a large social return are well funded, while those that deliver an unclear return are required to provide greater evidence in order to justify the investment of public money. The next section outlines six different priority areas for economic policy over the coming years, and where this new way of thinking fits in.

3. Key Challenges for Ireland

3.1 Infrastructure

Section 2 outlined the concept of the social return on investment and is perhaps the single most important change in mindset needed by Irish economic policymakers during the lifetime of the next government. Nowhere is this more apparent than in the area of infrastructure. Economic policy in relation to the funding of infrastructure works well when such investment generates a social dividend large enough to cover their full cost of provision, while those that would generate more limited social return are not investment projects which should be prioritised.

To ensure an appropriate return on investment, it is fundamental that the financing of major infrastructure projects is connected up to the beneficiaries of those infrastructure projects. To take one example, the Metro North project in Dublin, this is a project that should go ahead – regardless of whether the Irish economy is booming or not – if and only if the return on investment is large enough to cover the upfront costs.

How might this return be measured? For a project such as Metro North, the economic benefits will include new jobs created, greater business for those companies close to the Metro North stops, time savings for those who use the new Metro North, and new development and construction in areas that see the biggest increase in economic connection as a result of the Metro North project. In other words, this is a project whose return will show up across various tax headings, including taxes on real estate, incomes and sales.

The introduction of the DLR and the extension of the Jubilee line in London, for example, is estimated to have increased land values in the area around the new stations by £13 billion. This is roughly four times the cost of the project. However, investment in both was funded through general taxation and therefore the benefit arising from the increase in land values became privatised. If instead the project had been funded through a land tax, roughly £650 million could have generated if a full 5% land value tax were implemented. In other words, even before considering the additional income tax or VAT receipts, these projects could have generated sufficient social return – here geographically very concentrated – and thus reduce the requirement for general taxpayer funding. Furthermore, other shovel ready infrastructural projects, rail or otherwise, could have been advanced with the upswing in land values by enabling the exchequer to release funds to advance such projects more rapidly than is currently the case with the failure to advance a land value tax in London. So, in the absence of a land value tax or a property tax similar in nature, associated with the increase in land values arising from exchequer led investment, socially worthwhile projects will not get funded.

This principle – that where public investment brings concentrated local economic gains, it should be funded locally – requires significantly greater levels of local authority autonomy than that currently pertaining in the Irish local government system. The introduction of such autonomy in Ireland would be a return to the past where local authorities could raise money on international capital markets to fund for example a harbour project or investment in utilities. Ireland's local authorities are among the most dependent on central government local authorities across the OECD. As outlined above, infrastructure and capital projects have borne the brunt of austerity over the last eight years. To rectify this, and ensure that money is borrowed to meet future needs, with projects generating sufficient social dividend, major reform of how our infrastructure projects are planned and undertaken is required including the introduction of a land value tax and greater local authority autonomy.

3.2 Water infrastructure

Clearly an issue related to infrastructure that the next government will have to deal with is water charges, and the related issue of water infrastructure. This has proven a contentious issue for a substantial minority of voters, sufficient for it to become the main stumbling block in the formation of a new government. However, sentiment among the wider electorate – only 8% of those in exit polls cited water as their main concern – and EU regulations around water both suggest that water -related charges in some form, direct or indirect, are here to stay in Ireland. Given the state of Irish water infrastructure and given the importance of incentives to conserve water where feasible, this is on balance a good thing. Nonetheless, given the stance taken by different parties ahead of the election, the implementation of water charges is likely to remain contentious throughout the lifetime of the next government.

3.3 Housing

During the course of the last government, a clear housing shortage emerged, initially in Dublin and, by the end of the life of the last government, across the country. This shortage is the product of two factors. Firstly, there has been a steady increase in population, driven mostly since the crisis by a surplus of births over deaths but more recently by stronger immigration. Secondly, there has been minimal construction of new homes over the last five years.

To take the example of Dublin, the twin pressures of strong demand and constrained supply have led to increases in both rents and house prices of more than 40% since the 2011 general election. In a city that needs roughly 10,000 new homes every year, an average of little more than 1,000 homes have been built on average each year since 2011. The same dynamic is true, to a lesser extent, across the country. Evidence for this can be seen in the declining availability of homes to rent and homes to buy, but also, more acutely, in rising levels of homelessness, including working homeless families.[63]

[63] See, for example, the figures on stock available produced in the quarterly Daft.ie Reports.

Basic economic theory suggests that where demand is greater than supply, but no new supply is forthcoming, the price received by suppliers must be less than the costs they face. There is no general agreement on how much it costs to build a home. While there are CSO figures on construction costs, these are not trusted by those familiar with construction as they rely on out-of-date weights and do not reflect changes in regulations and minimum standards that have an impact on viability and costs.

Recent research has highlighted that the true path of the cost of building a minimum-spec home actually rose substantially in the period after the economic collapse.[64] In round numbers, if the average home was worth €120,000 in 1995 and cost €100,000 to build, this left a clear profit margin for the average builder. Between 1995 and 2007, the average home increased in value from €120,000 to approximately €360,000. In this context, it would not be problematic if costs doubled on average from €100,000 to €200,000. However, the collapse in average values from €360,000 to €180,000 means that it is no longer viable, particularly once land costs are included, to build badly needed homes across the country and, in particular, in the urban centres.

During the lifetime of the new government, a strategy for housing – ideally under the new Cabinet-level Minister for Planning? and Housing – needs to be developed. That strategy should rely on four interrelated pillars of public policy, in order to ensure access to good quality homes for all, regardless of their level of income. Those four areas are mortgage regulations, construction costs, the provision of social housing and policy relating to land use.

The first area, mortgage regulations, is largely in place thanks to the measures taken by the central bank in late 2014 and early 2015. The spirit of the central bank rules, to prevent house prices from rising too high relative to real incomes thereby preventing a dangerous credit fuelled bubble and crash cycle, is now largely agreed on by all sectors in society. Nonetheless, the exact details remain contested, with complaints that the rules were introduced too fast, particularly for those on the cusp of buying had the rules not been brought in, and that the rules do not take sufficient account of the variation in house prices across the country.

This is particularly the case when house price to income ratios in Dublin are compared to the rest of the country. This premium for living in Dublin is a relatively recent phenomenon, dating from the late 1980s, and is likely to be a function of inappropriate land use restrictions (see later in the section). The solution to this challenge is for the central bank rules to prioritise the loan to value requirement and place far less

[64] Lyons, Ronan C., 2015. “Housing supply in Ireland since 1990: The role of costs and regulation”, Journal of the Statistical and Social Inquiry Statistical Society of Ireland, Vol.44, pp141-155..

emphasis, if any at all, on the loan to income requirement, which is ultimately the responsibility of the private banks themselves. This also addresses some of the perverse incentives that have arisen since the introduction of the mortgage caps, in particular in relation to buying at a greater distance from work or buying a less energy efficient home. A revised set of mortgage regulations should allow someone to borrow a greater amount, and thus save on fuel and/or time costs, provided they are saved a greater amount to cover the extra risk they are taking on.

The second area for housing policy is in relation to construction costs. Put simply, if the central bank is now capping house prices relative to real incomes, it is incumbent on another part of the policy system to cap construction costs relative to real incomes. As outlined above, however, no part of the policy system takes responsibility for construction costs. Estimates based on expert advice suggest that, excluding land costs, the minimum viable breakeven monthly rent for a two-bedroom apartment is roughly €1200. Only a handful of market segments can sustain such rents, with average two bed rents in Cork, for example, been closer to €800. The example of an apartment is deliberate, given Housing Agency research that highlights the bulk of new households being formed in Ireland comprising one or two persons.[65]

Therefore, a vital first step is an audit of all construction costs that could be accepted by policymakers, including the impact of various regulations on the cost of building a home. If done in a spirit similar to the World Bank *Doing Business* report, this would allow all figures to be contested and reviewed on an ongoing basis and, more importantly, provide an evidence base for the most important policy reforms needed to bring the cost of building homes back in line with real incomes.

A healthy housing sector includes both market-based and socially provided housing. When economic conditions are weak, and unemployment rises, any downswing in the construction of new homes by market-based firms will be offset in a healthy housing sector by an increase in the provision of social housing. Unfortunately, the Irish housing system works in the opposite way. The Part V provision explicitly ties the provision of social and affordable housing to market conditions. This flies in the face of economic logic.

Following directly on from construction costs, it is clear that even if construction costs are brought back into line with typical incomes, there will always be a certain fraction of the income distribution that cannot afford to cover the cost of their accommodation. The obvious solution is a single unified housing subsidy, based on the gap between how much a household can sustainably spend on their accommodation, typically viewed as no more than one third of disposable monthly income, and the cost of providing that household

[65] National Statement of Housing Supply and Demand 2014 and Outlook for 2015-17, Housing Agency, July 2015.

with accommodation. In other words, the Irish housing system needs a complete overhaul, with not just Part V at fault, but also a fixed subsidy system such as Rent Supplement and other legacy systems being replaced by one single housing subsidy.

The final area of housing policy reform needed relates to land use. The discussion above focused on construction costs which comprise one element of the cost of building a home, with the other major element being land costs. As mentioned above, the growing divergence between house prices in Dublin house prices elsewhere in the country is a sign that land use is unhealthy in this country. Leading economic research clearly shows that land use restrictions are at the heart of the divergence between house prices and costs in many cities worldwide.[66] The obvious solution, in order to increase the supply of land for residential where needed and thus to lower the cost of land and thus the price of homes, is a land value tax.

Clearly, replacing Local Property Tax or imposing an annual tax on agricultural land would be incredibly sensitive politically. However, this should not stop the new government from replacing the current system of development levies, stamp duty, and commercial and industrial rates with a single land value tax. Where zoning is either regularly reviewed, contestable or flexible, this will allow changes in land use will ensure any increases in housing demand are met with new supply of homes.

4 Competitiveness

Ireland's competitiveness is summarised as a pyramid of interacting factors. At the bottom of the pyramid sits physical infrastructure, human infrastructure, and business environment. One layer up we see labour supply, productivity, and prices and costs. At the top layer sits the resultant sustainable growth. Ireland's physical infrastructure has been augmented over many years by large-scale capital investment programmes, but from 1970 to 2015 the average of public investment as a share of GDP was around 3.2%. Even at its height in 2008, public investment only reached 5.2% of GDP. One of the key priorities for the next programme for government is in securing an increase in this capital investment programme above its long-run average using the criteria spelled out above.

Ireland's human infrastructure, which may be proxied by its tertiary, further and higher education systems, has been defunded over the period of 2008 to 2016, and the sustained current capital and pay deficits within these two key sectors means that the level of human infrastructure necessary to maintain Ireland's long-run competitiveness is below where it should be.

[66] See, for example, Albert Saiz, "The geographic determinants of housing supply." Quarterly Journal of Economics 125.3 (2010), for the US and for the UK, Christian Hilber, and Wouter Vermeulen, "The impact of supply constraints on house prices in England" (The Economic Journal, 2015).

Ireland's highly accommodative business environment has been a pillar of its export led growth strategy since the 1950s. This business environment is consistently ranked in the top five for "business friendliness" on every index on this issue. Ireland, however, faces two major issues with respect to its business environment, the first of which is the base erosion profit-sharing scheme, BEPS. This scheme, combined with the move to a consolidated corporate tax base model at European level, implies that one of the largest and most important pillars driving Ireland's pre-eminence as an export platform for multinationals may be under threat.

Other small open economies are also engaging in the kind of tax competition which made Ireland both famous and infamous in different circles. It may well be therefore, that we in Ireland rely on path dependence of large-scale private capital infrastructure projects to sustain our competitiveness in this area over the medium term of say 5 to 10 years. This does mean of course, that every marginal increase in capital expenditure by private multinationals may go elsewhere unless of course productivity gains which would result.

4.1 Brexit

A further wildcard, at least at the time of writing, is 'Brexit', the referendum to remove the United Kingdom from the European Union. In the event of an exit there will likely be five major effects in the short term (1-3 years) on the UK economy.

1. A re-alignment of the terms of trade via the interest and exchange rate channels;
2. A recession in the UK and potentially in Ireland;
3. A re-instigation of 'soft' border controls across Northern Ireland;
4. Re-negotiation of free travel movements and trade flow agreements;
5. De-coupling of B2B and B2C processes currently handled across jurisdictions, in particular, for Ireland.

In the medium to long term, a number of issues may arise for the UK economy in the event of Brexit. These include a reinstatement of "hard" border controls, alterations to UK law and regulations, changes in financial regulation, and the potential for deepening of regional variations within the UK. For Ireland, Barrett et al (2015)[67] estimate that:

1. Bilateral trade flows would fall 20%;
2. Individual sectors such as merchandise trade and geographical regions like the South West would be badly affected;
3. Lower FDI to the UK would imply lower growth there which would impact Ireland;

[67] Barrett, A., Bergin, A., FitzGerald, J., Lambert, D., McCoy, D., Morgenroth, E.,& Studnicka, Z. (2015). Scoping the Possible Economic Implications of Brexit on Ireland Economic and Social Research Institute (ESRI) Research Series.

4. The 'substitution' effect of UK FDI to Irish FDI would not be enough to balance (3);
5. Energy interconnection would suffer. For example, if the UK left the EU it would no longer be subject to EU regulatory measures to deal with a possible crisis situation in the case of a gas or oil shortage. Ireland would then have to consider how best to provide protection from very unlikely, but potentially catastrophic, outcomes;
6. Migration to and from Ireland by Irish citizens and British subjects would be curtailed;
7. It is unlikely capital mobility will be impaired.

Brexit is more likely to be as damaging for Ireland as for the UK and, arguably, because we are a tiny open economy with no independent monetary policy, Brexit may well hurt Ireland harder, and for longer. In the absence of an independent monetary policy, controlling wages and rents will be difficult, while infrastructural investments which are within the purview of the state could be further restricted than currently due to likely decisions in an unstable government investment market where levels of debt remain problematic.

4.2 Local Enterprise & Employment

One of the more pressing areas for government action over the period 2016 to 2021 is to address unemployment, particularly long run unemployment. While there has been an impressive fall in the unemployment rate over the last five years from 15% to below 8.5%, there remains a substantial cohort of the workforce that is long-term unemployed. In this context, the primary goal of employment policy, in the life of the new government, should be the restructuring of spending on the unemployed from passive to pro-active initiatives.

Active labour market policies are similar in scale to passive policies, in that they target people of working age not in employment but who are willing to work. However, activation policies encourage jobseekers to become more focused in their efforts to find work and increase their employability. They are based on the principle of mutual obligations: the state has an obligation to ensure that the citizen has an adequate income, while the citizen has an obligation to ensure they do their best to regain employment. In other words, active labour market policies have at their core reciprocity, where those out of work receive services and payments in exchange for an active job search on their part.

In economic terms, there are two core aims of most labour market policies[68]. The first is to improve the matching of labour supply and labour demand, while the second is to improve the quality of labour supply, i.e. to up skill the workforce or increase human capital. Often, active labour market policies have specific

[68] Martin, John P, and David Grubb. "What Works and for Whom: A Review of OECD Countries' experiences with active labour market policies." *Swedish economic policy review* 8.2 (2001): 9-56.

target groups, in particular the young and disabled. In the case of Ireland in 2016, a clear target group would be those who lost their jobs between 2007 and 2010 and who remain unemployed.[69]

There are four main types of active labour market policies.[70] The first is job search assistance, whose primary aim is to increase the efficiency of a worker's job search. While arguably this has become less important with the dramatic collapse in costs of information, peer-reviewed evidence does show positive effects over the short run, with job search assistance schemes typically deemed cost-effective.

The second type of active labour market policy comprises incentives for private sector employment. This can include start-up grants, assistance for self-employment, or wage subsidies or indeed anything that alters employer or worker behaviour in relation to hires. This has been a dominant part of recent policy efforts at boosting employment, particularly in schemes such as JobBridge. While peer-reviewed evidence suggests that wage subsidies can be effective in the short run, there is concern about displacement, both among economists and indeed the Irish public at large.

A third, former, active labour market policy is that of direct job creation by the public sector. Here, it is important to distinguish between two different types of public sector employment. The first is public employment that meets the concept of social return on investment, outlined above. If the policy-making system and the public finance system is adjusted, so that the benefit created by an organisation in the public sector is captured by that organisation, public sector employment will be effective. However, public sector employment "for the sake of it", where there is no link between the cost of public sector employment and any benefits created, or even no measurement of benefits created, then it is hard to argue in favour of public sector employment as a solution for long-term unemployment[71]. Indeed, research shows that such employment schemes are not cost-effective and all decrease the chances of participants finding a job later[72].

The final form of active labour market policy is training. Funding the retraining of the long-term unemployed is costly but has been shown to have positive long-run effects. Given the skewed nature of labour market spending currently, namely the predominance of passive spending and the dominance of private sector employment incentives within active spending, the new government must look to switch

[69] Heyes, Jason. "Flexicurity in crisis: European labour market policies in a time of austerity." *European Journal of Industrial Relations* (2013): 0959680112474749.
[70] Card, David, Jochen Kluve, and Andrea Weber. What works? A meta analysis of recent active labor market program evaluations. No. w21431. National Bureau of Economic Research, 2015.
[71] Afonso, Antonio, Ludger Schuknecht, and Vito Tanzi. "Public sector efficiency: evidence for new EU member states and emerging markets." *Applied Economics* 42.17 (2010): 2147-2164.
[72] Stegarescu, Dan. "Public Sector Decentralisation: Measurement Concepts and Recent International Trends*." *Fiscal studies* 26.3 (2005): 301-333.

away from both these types of spending long-term unemployed towards actively improving the skills of those who are out of work. In this context, the roll-out of Solas represents a huge opportunity.

4.3 Local enterprise

Related to the issue of employment is the performance of local enterprise. Here, there are two priorities for the new government. The first is the conversion of the entrepreneur in the tax code from what is effectively a pariah status to a peer of those in other forms of employment. This is all the more relevant given the growing share of the workforce that are outside permanent full-time employment.

A second area of reform is changing the mindset of Enterprise Ireland (EI). Currently, through, for example, the High Performance Start Up scheme, there is a significant focus on so-called “unicorns”. While Ireland should not give up ambitions of generating companies that are successful on a global scale, the gap in the Irish structure of firms is in solid mid-tier businesses and it is in this area where a change of EI mindset could have a significant effect.

4.4 Healthcare

At over 19 billion Euro, or 43% of all government expenditure in 2016, health care is a large and increasing fraction of the state’s resources. Since 2008, however, capital expenditure has been less than 0.8% of GDP. In an historical perspective, capital expenditure on health is practically non-existent. Combined with a geographically uneven distribution of services, inefficient health care production can worsen inequality. Moving fiscal policy closer toward an understanding of the geographical dynamics of the healthcare sector, and its overall contribution to the welfare of the economy, would give a large increase to individual welfare as well as a much sharper ability to control expenditure levels. Health is of course a derived demand where latency will always be much larger than the state’s ability to satisfy that latency. It is the case, however, that almost 2 million people have access to essentially free medical care via the medical card system. While there are shortages within the system, one of the of the biggest factors contributing to long waiting lists for treatments and tests was not, in fact, a shortage of beds, but poor administrative planning, fragmented primary and community care, as well as poor access to diagnostics.

The OECD recently conducted a comparison of price levels for public and private hospitals, concluding that the price of hospital care in Ireland was higher than it was in Sweden, Finland, Austria, the Netherlands, France, Germany and Britain. They ranked the number of hospitalisations, average length of stay, price per case type, and cost structure. In all cases Ireland ranked poorly[73].

[73] Varabyova, Yauheniya, and Jonas Schreyögg. "International comparisons of the technical efficiency of the hospital sector: panel data analysis of OECD countries using parametric and non-parametric approaches." *Health Policy* 112.1 (2013): 70-79.

Spending on health and social care increased six-fold from 1996 to 2016, and while life expectancy has increased and mortality has decreased, measured per 1000 of the population, the gains are not commensurate with the large increases in funding, which implies there are capacity and service model constraints within the system, which can only be removed via reorganisation. The size and scope of the health system is such that large scale reorganisations are multi-decadal in scale, and thus beyond the scope of this review.

What is certainly true is that, in the short term, there will be almost none of the large capital investment required to solve some of the more pressing service level bottlenecks that exist within the health system, nor will there be an end to the waiting list issues which bedevil particular aspects of the service, for example, colorectal examinations, orthopaedic services, and ophthalmic procedures. In the absence of a large-scale transformation plan, only smaller initiatives such as individual primary care facilities, or well worked out critical care pathways will be introduced in the lifetime of the next government.

4.5 Education

Would you rather rats in schools or rats in labs? This is a rhetorical question posed by a senior civil servant when asked about the funding for further and tertiary education in Ireland, which has seen large cuts in both pay, current, and capital expenditure since 2008. Given an extra €10 million to spend on the education sector, where should that education of investment go? Should it go to tertiary or further education, secondary education, primary education, or pre primary education?

Here we return to the question of which investment delivers the highest social return on that investment. The estimated social return on investment for tertiary education is much lower than the social return to early childhood education. A recent five year plan for early childhood education in Ireland makes the necessity to fund ECCE schemes clear. The issue is what the public and private mix of services should be. Ireland has a relatively underdeveloped public system of ECCE provision, with smaller private sector firms and single-person operators doing much of the work. An inspection regime has begun to increase quality of provision through the private sector, but the economics are not promising.

Essentially the pricing model adopted by individual operators is to set price per child equal to average cost plus a small markup. Regulatory staff to child minima mean that several rooms in each facility are loss-making. This makes staff costs a large percentage of the overall cost base. Many ECCE workers are paid minimum wage, meaning that long term career structures are difficult, and that quality of service provision is uncertain[74]. The inspection regimes must be connected with grant schemes and continuous professional

[74] Moss, Peter, and Alan Pence. *Valuing quality in early childhood services: New approaches to defining quality*. Peter Moss & Alan Pence. SAGE, 1994.

development to counter this. Several models of service provision are available internationally, with the New Zealand[75] model of managed pre-and post- school activities, and subsidized childcare

The other major issue around education policy and financing to be faced by the new government is the higher education sector. Here, the challenge again to satisfactorily link the financing of third-level education with those who benefit from it, while taking into account real-life behavioural factors that affect decisions in relation to education. An example is debt aversion, which may interact with socio-economic status to create barriers to third-level education for those who would benefit most from it.

Currently, the central control of substantial aspects of the higher education, including the quantity and price of places on third-level courses, creates clearly sub-optimal outcomes. Greater organisational autonomy and fiscal responsibility, combined with financial supports - such as equity, rather than debt, investment in students - to ensure access for all, would lead to better outcomes and the growth of education as an export.

5. Conclusion

The Irish economy has rebounded impressively after the economic crisis of 2007 to 2011. Given the inherently volatile nature of the Irish economy, perhaps this was to be expected. And in some sense, it represents economic policy coming full circle over the last 15 years, with much of the challenge for the new government being the management of expectations in the context of strong headline GDP growth.

In this context, this chapter has outlined an important distinction between inevitable booms and busts, where economic activity ebbs and flows with confidence and entirely avoidable bubble and crash cycles, driven by an excess of debt and inappropriate regulation of the financial system. The inevitable nature of booms and busts means there is a strong justification for government intervention to minimise the economic and social costs of recessions. However, two of the three traditional policy levers, namely trade policy and monetary policy, are no longer within the control of Irish policymakers. Even fiscal policy, understood for many years as the only true lever of short-term economic adjustment, is now curtailed by fiscal rules and by large levels of indebtedness in both the government and private sectors.

This creates a far greater onus on policymakers, in Ireland and elsewhere, to better understand fiscal policy. This paper has outlined one way of recasting fiscal policy as a tool similar to monetary policy. By creating far greater organisational and financial autonomy within the public sector, it is possible to measure the social return on investment that each organisation funded by the taxpayer delivers through their spending.

[75] Carr, Margaret, and Helen May. "Choosing a Model. Reflecting on the Development Process of Te Whariki: National Early Childhood Curriculum Guidelines in New Zealand." *International Journal of Early Years Education* 1.3 (1993): 7-22.

Not only that, it is possible to use think about using this social return on investment concept, in a way similar to official Central Bank interest rates, as a way to stimulate the economy when needed and cooler down also when required.

This concept was illustrated across a number of key challenges that Irish economic policymakers face over the coming five years. In particular, the social return on investment logic applies to addressing Ireland's infrastructural deficits and its housing needs over the coming years, but is also an important factor when thinking about healthcare and education as publicly provided services. In addition to infrastructure, housing, healthcare and education further key challenges were identified. The first relates to competitiveness and the role for external demand and international trade in driving domestic economic progress. The second related to unemployment and active labour market policy as well as the role of local enterprise.

The results of the election held in February 2016 suggest that the new government will not enjoy an extended period in Office.. Political uncertainty will likely be a feature of the incoming government where fudge rather than clear direction will be a central platform for some limited policy developments in each of the key policy arena of the State. . The intersection between political and economic spheres, however, cannot be ignored but unfortunately there can be every expectation that, given the current political environment and the culture underpinning it, avoidance of a strategic or medium to long-term perspective is likely to inform how Ireland is governed. The political economy of active demand management in a small open economy like Ireland's is still not well understood and is unlikely to be understood in the current context. The resources of the state can be used to their best effect in the service of Ireland's citizens but in the absence of strategic thinking and understanding of the dynamics of economic thinking the on-going boom and bust approach of central government in Ireland is likely to remain a feature of the next 3-5 years, a regret given the harsh lessons of the past decade of lost opportunity for so many.

Local Government and Spatial Planning in Ireland

John Martin, Jack Keyes, Ruth Minogue and Seán Ó'Riordáin

Introduction

Irish Local Government has delivered a wide range of services and fulfilled many complex roles over the past 20 years in particular. Very few if any organisations are asked to develop expertise in and deliver positive results in the areas of regulation, agency delivery, sustainable planning management, local agency coordination, social inclusion, economic development, cultural management, citizen engagement and traditional engineering service delivery. It plays a pivotal role in the democratic system through the management and nurturing of the local democratic voice. The system is viewed in some quarters as a model of good governance, while others do take the opposite view.

Nonetheless, the broad brief that is the responsibility of local government is scarcely comprehensible to many private, community and other public sector managers. At the heart of local government is the simple fact that the system is responsible for many of the policies that impact day to day lives from housing, or the lack of it for some, to economic development potential and where employment is to be placed, to where our future communities are to live, work and recreate. It is the sector which provides the platform on which our communities can grow, flourish or decay. Local government is therefore central to how communities come to self sustain and, ultimately, how people engage with their locations as they live their lives.

Arguably, it is at the interface between meeting the current and future needs of citizens and others in the State and the demands for growth, employment, accommodation, recreation and travel, among other policy sectors. Local government is a multi-functional and integrated policy platform which seeks to underpin how public policy is delivered...or, for some at least that is, what might be expected in an advanced open economy. In an expanding country and growing population the question has been and is being put on whether the local government system in Ireland is fit for purpose. Demands for national delivery of many local government functions are and will remain a feature of policy dialogue in Ireland over the lifespan of the next government. The question is how government should respond, and is there a role for local government?

The new National Planning Framework: Building on the National Spatial Strategy

In a critical initiative the Department of the Environment, Community and Local Government has announced that the current National Spatial Strategy (NSS), which was due to run until 2020, should be replaced in the coming year with a new National Planning Framework (NPF). It could be suggested that this will be one of the most important policy developments under an incoming government. It might also be argued that in drafting the new Framework, much could be gained from analysing the successes and failures in implementing the NSS and what lessons could be learnt from comparison with Scotland's Third National Planning Framework. A key principle will be the acceptance of how our citizens engage with each other and the institutions of state, in their daily lives, must be central to how Ireland, local and national, will be planned and serviced over the immediate future and into the longer-term as our population grows beyond that which existed pre-famine.

The proposed national planning framework is central to such thinking and as it is prepared what impact it might have in how public services are configured if we are to cope with the pressures of growth and development across the Republic and, indeed, into Northern Ireland.

Background to the NSS

The need for a national spatial strategy from a policy perspective was highlighted by a range of public bodies in the late 1990s[i], in order to promote more balanced regional development and to co-ordinate sectoral policies (such as transport) across Ireland. The National Development Plan for 2000-2006 had identified Dublin as a national gateway serving the whole country with Cork, Limerick/Shannon, Galway and Waterford acting as regional gateways for extensive parts of the country; the Government endorsed the view of the ESRI that the specific designation of a secondary tier of regional gateways required further detailed study in the context of developing a National Spatial Strategy for the country as a whole[ii]. The Department of the Environment, supported by an expert advisory committee, was charged with preparation of the NSS; an extensive research programme was commissioned, and public consultation was facilitated by the publication of scoping and issues papers[iii].

The NSS, launched in 2002, was designed as a twenty year planning framework designed to achieve a better balance of social, economic, physical development and population growth between regions. It was intended to achieve complex, multi-faceted objectives, including:

- Supporting a better balance of activity and development between areas experiencing rapid development and congestion and areas that are economically under-utilised
- Setting a national context for regional planning guidelines and county and city development plans

- Providing a framework, in conjunction with the Regional Development Strategy for Northern Ireland, *Shaping our Future*, for the spatial dimension of the development of an all-island economy, and
- Informing strategic investment, transport and other infrastructure policy decisions, for both the public and private sector[iv].

The NSS was ambitious in scope and in its objectives. It was also an innovative undertaking for a Department which, while broadly responsible for overseeing the statutory landuse planning system in Ireland, had never before prepared a spatial plan. Given this background, and the depth of the crisis which hit the country in 2008, it is hardly surprising that the results of implementing the NSS have been mixed.

No comprehensive review of the NSS's performance has yet been carried out[v], but it is possible to identify some of its key outcomes; build on its strengths, and address its weaknesses. Doing so should add robustness to any successor strategy. In terms of its strengths, the NSS was given statutory recognition in relation to providing spatial policy guidance for the regional planning guidelines and, through them, for city and county development plans. This was an important step in moving our planning system into a more co-ordinated policy framework, something lacking prior to this being put in place. The requirement under the 2010 Planning Act that local, city and county plans must include an evidence-based approach to zoning is a further strength. Substantial progress was also achieved in improving the inter-urban road and rail links, and all of the gateway cities have put sustainable transport strategies in place. Some Departments have created or improved institutional structures to facilitate co-ordinated spatial development, planning for new schools being a notable example. It does seem extraordinary that prior to the NSS there was limited effort to co-ordinate, build policy on an evidence based platform and even get policy-makers and advisors to relate population location to schools provision! At least it might be argued that these simple but important factors in how we plan the country are now in place and will be further underpinned by forthcoming planning legislation.

However, there is much which remains to be put in place and any replacement for the NSS should also address its shortcomings. For example it can be argued that the NSS preceded the preparation of the first regional planning guidelines in 2004, and may have been overly detailed. In addition, there were too many gateways and hubs, which militated against effective prioritisation. It would not be unreasonable to question whether the linked gateways (such as Athlone-Tullamore-Mullingar) worked in practice – whether this is the case or not an objective analysis is needed to determine whether administrative and other linkages were effective in overcoming the disadvantages of the small scale of the towns involved and the distances between them.

The above lessons, positive and negative, suggest that the National Planning Framework should focus on the role of the five original gateway cities in driving regional economies[vi], leaving the designation of supporting hub towns to the regional strategies which are to be prepared under the Local Government Reform Act, 2014. The new Regional Assemblies, established as a central platform of the recent local government reforms, are much larger than the former Regional Authorities, ranging in population size from 837,000 (Border and Western) to 2.2 m in the Eastern and Midlands[vii], and they should provide a suitable context for devolution of regional planning functions.

Secondly, the NSS was not as well integrated into national capital expenditure programmes as it might have been. There have been deficits in funding key infrastructure at gateway level – the shortage of serviced housing lands in Dublin being a prime example, one which is still a challenge as the country begins to grow once more.

Thirdly, regional economic disparities remain[viii]. In this regard the recent commitment by IDA Ireland to a greater dispersal of investments throughout the State should be welcomed; a minimum increase in investment of 30% to 40% is being sought in each region outside Dublin, with Dublin continuing to attract similar high investment levels as before. While foreign direct investment is still likely to be attracted to the main urban centres, there is considerable scope for promoting indigenous enterprises in smaller towns. Again, the new regional spatial and economic strategies, which will take their lead from the National Planning Framework, offer an opportunity to combine the expertise of the State agencies with local knowledge and dynamism, particularly at the level of city regions.

These lessons suggest the need to address how the local and regional governance of the State is to be progressed in order to deliver on the necessary policies and infrastructure needed to equip the State into the future. One of the weaknesses of the NSS was the expectation that the existing local government system would and could deliver on its part, the objectives of the NSS. Given the impact of reform and more particularly the austerity of the past several years perhaps this was always going to be an expectation which could not be met, a point to which this paper will address shortly but, before doing so, looking to international if adjacent experience is worthy of consideration.

Scotland's Third National Planning Framework (NPF3) 2014

The Department of the Environment has indicated[ix] that it is looking at Scotland's Third National Planning Framework as a possible model for the successor to the NSS. NPF3 is the spatial expression of the Scottish Government's Economic Strategy, and of its plans for development and investment in infrastructure. What lessons can be learnt from the Scottish experience?

- Firstly, there is a strong emphasis on nationally-important infrastructure – 14 national developments, to be delivered by both the public and private sectors, are identified, ranging from high-speed rail to the comprehensive redevelopment of the former Ravenscraig steelworks.

- There is also a focus on the role of city regions which are home to the majority of Scotland's population and economic activity.
- It is the ambition of the Scottish Government to be a world leader in low carbon energy generation, both onshore and offshore. The strategy shows where there will be opportunities for investment in the low carbon economy.
- The strategy also provides links with marine spatial planning[x], for example, by identifying onshore locations for serving the offshore renewable energy sector.
- The strategy is reviewed at regular interviews, which means it can adapt to changing economic and social circumstances.

Critically, the Framework is being integrated into a whole of government policy environment already well established in Scotland. It means that across the various parts of the Scottish Executive and local government there is a planning framework applicable to all business and corporate planning, something clearly absent from our experience with the NSS and something only fully appreciated at national level in Ireland with the advent of the local government reform programme, *Putting People First.* As a result of the programme the Country is now in a position to at least bring greater integration into the delivery of local and regional planning which, as acknowledged above, would have been seen as a critical weakness in the implementation of the NSS. The issue now arguably is whether even the changes brought forward under the reform programme are, in fact, fully developed to ensure a successful adoption and implementation of a national planning framework in Ireland.

Outlook for the new National Planning Framework

Despite a return to net outward migration in the years leading up to Census 2011 the population has continued to grow strongly due mainly to the high number of births of recent years. The CSO has projected that the population of the Republic could increase by over 600,000 by 2031, and on present trends over 400,000 of these will be living in the Greater Dublin Area[xi]. Some projections suggest an even more rapid rate of expansion. In the event of such growth the challenges of regional disparities, urban sprawl and long-distance commuting must necessarily be addressed or they will persist to the long term detriment of the State as it grapples with climate change and international competitiveness.

In addition, many of the key policy drivers which confronted the NSS planners remain to be addressed in the next spatial strategy. The economic outlook globally is less optimistic than it was around 2000, and funding for major capital projects is more constrained. In these circumstances, it is all the more important that the regional development implications of national investment decisions are carefully considered within a strategic development framework which will prioritise sustainable development of the State and its regions.

Environmental Challenges

The environmental challenges facing the island of Ireland remain considerable and increasingly require a multidisciplinary and multifaceted approach to both capture and assess evidence and, in turn, develop appropriate policy and management responses. What is striking, and notwithstanding the efforts of the past decade, is the uneven evidence base and data upon which to assess and address environmental issues. For some parameters, notably water quality and protected habitats and species (driven largely by the requirements of the EU Water Framework Directive and the EU Habitats Directive), the period since the NSS has seen significant research and publication of data and reports. For other environmental parameters the evidence base can be much weaker, less quantifiable when compared to the natural sciences but of equal importance to communities and our own identity. Given the resources being allocated to promote a range of initiatives premised on our quality landscapes (Wild Atlantic Way and the Ancient East by Failte Ireland, Origin Green Certification, Bord Bia, to name but a few), the need for a planning framework to respond and manage such issues remains at the heart of how our urban and rural communities are to develop. Questions remain as to how our landscapes are being managed and how do we ensure that the evidence base is robust enough and capable of being tested to ensure that sound decisions are made.

In addition recent community based opposition to a range of development activities, most notably wind energy and associated infrastructure (particularly pylons) has shown that seemingly intangible concepts such as identity and landscape can become a rallying cry for communities who lack faith in the local and national planning process. Such controversies are likely to continue to be a feature of policy development and there remains a very real need to bridge the gap in public trust of both our local and national policy processes, particularly if the hard decisions confronting government concerning the nature and impact of such policies are to be fully understood and deliverable. This leads to a second point – public engagement and input to policy at local and national level. In its 2014 report, for example, on building community engagement and wind energy the National Economic and Social Council states the '*information provision and minimal consultation, as required under the planning process, seems unlikely to be sufficient to gain support for wind projects, now and into the future*.[xii]. **It suggests four responses and acknowledges a combination approach as the best scenario: consider how revisions to local authority structure and planning systems may contribute to more meaningful engagement, invocation of the Aarhus Convention, focus on bottom up approaches and finally guidelines.**

As the NESC report concludes in relation to improving engagement: *'a central argument in this report is that rather than choose one of these approaches, we need to devise an approach that contains elements of top-down planning and framing combined with the front-line dynamic of project development and the bottom-up generation of local legitimacy. This need is most evident in relation to value-sharing. Local communities need a stronger role in shaping and sharing local value. They need to be able to identify* *resources and potential value, problem-solve and find solutions as to how value is owned, distributed and for what purpose it will be used'*[xiii]

This clearly does not apply only to wind energy but the role of public participation has also to be embedded across all policy development at local and national level. The question thus arises on whether our current practices and the tools we have available remain sufficient to provide the necessary platforms on which such policies can be developed? Returning to the example of Scotland, it is worth noting that Scotland made the decision (through the Scottish Parliament and supported through public consultation) to become a world leader in Strategic Environmental Assessment (SEA). The decision was made to take SEA beyond the requirements of the EU SEA Directive and extended legislation to cover all public plans, programmes and strategies. This decade long approach to SEA in Scotland has facilitated a strong evidenced based planning approach across policy areas and also encouraged a more responsive and strategic approach to spatial planning. Whilst many local authorities (particularly the planning teams) in Ireland now recognise the utility of SEA and see the environmental benefits, this attitude may not yet be shared across departments; there remains some institutional and/or political resistance and understanding of SEA in certain sectors.

The key point is that in Scotland there are on-going efforts to build policy. This is based upon a rigorous consultation platform and within an integrated framework, in this case provided through the methodologies of SEA, which have provided an evidence base which has allowed informed debate around the spatial direction of the Country and which is inter-departmental and multi tiered. This is something which is, and remains, a central challenge in Ireland.

Time for comprehensive local government reform...or at least a debate on what is fit for purpose...

Such a framework will require institutional platforms that will be fit for purpose. Against the backdrop of a new national planning framework how can we achieve a system of local government that is capable of responding to current and future challenges arising from population growth, increased public expectations and the need to demonstrate performance in a transparent and accountable manner? To achieve a system of responsive, responsible and representative local government, *clarity* on the purpose and role of local government has to be a central consideration. Notwithstanding the well considered principles underpinning a vibrant local government, which were set out in *Putting People First*, there remains a large gap in *capacity* for action at the local level, *cohesiveness* in central-local interaction is uneven, *committed* leadership at both levels can be difficult to identify while *community* involvement and *citizen* engagement remain real challenges. *Continuity* in a reform strategy which is public sector wide but firmly grounded on the objectives of a planning framework will be something confronting an incoming government.

In addition, and set against the backdrop of the reforms of the past 5 years and the on-coming challenges of the next 20 years, reforms will have to be cognisant of the fact that a 21st century urbanised society requires systems that reflect 21st century functionality. This is a central lesson if Ireland is to follow the model of the Scottish NPF. The 19th century agrarian based institutions that have sustained Irish local government may have limited relevance to how people live and will live over the next century. International experience suggests that citizen-based services and many routine public services are best delivered at local level, promoting a sense of identity and providing opportunities for local accountability and responsibility. A general move towards devolving person focused public services to local government is discernible across the OECD as the problems of service delivery on a large scale become obvious.

It is true that some local services can be very complex. Delivering public services across a large area to a dispersed population while, at the same time, providing for the local democratic voice will always be a challenge no matter what the size of the organisation delivering such services. Nonetheless from international experience, it is clear that certain services are best delivered at district/town level, others at city/county level and others at regional level. This allows central government to do what it is supposed to do...give direction, evaluate performance and deal with international challenges.

Does this mean that current county structures can remain as the most appropriate platform for local delivery of citizen centred services? *Putting People First* would clearly suggest that this is and should remain the case. However, there have been calls for a migration towards more regionally or nationally based delivery platforms, particularly in regard to engineering based services which increasingly call for complex responses to functionality and service delivery. If the National Planning Framework is to be effective there will be a need to address the institutional framework through which it can be delivered.

Considerable effort has, of course, been invested to address such structures with the advent of *Putting People First*. Notably however, these have had to respect the existing nature of county boundaries with relatively limited effort to focus on our understanding of what a 21st century local authority should be configured. There is also limited perspective on how a local authority might drive potential within its functional context. There is a further challenge of trying to engage a largely disinterested public where even the limited discussion to date, notwithstanding the most extensive reform of local government in the history of the State under *Putting People First,* has been relatively poorly informed. There is limited acknowledgement of the improved performance of the existing system thanks to the efficiencies achieved under the Local Government Efficiency Review and there is almost a complete absence of debate on what our local government system should look like if the State is to confront the challenges of implementation of the National Planning Framework.

So there are considerable challenges ahead and what is now required is an *informed* debate, debate based on evidence, something which can, at times, be all too lacking given recent experience. Such debate has, however, to be led by the national policy process as there is limited evidence of the existing local government being able to advance such considerations. Local government serves democratic and developmental as well as service delivery purposes. Unfortunately, the underpinning philosophy regarding democratic norms and institutional forms are rarely debated at local level and frankly without the publication of Putting People First would have been totally absent at national level.

This is not to say that local government has not shown itself capable of change and delivery. In fact in some respects local government has demonstrated the capacity to deliver effective local services. But while it is worth acknowledging some good performance relative to other sectors such as health and education, during the cutbacks of 2009 to 2015 period, can the existing system be considered as an appropriate platform to confront the challenges outlined earlier in this paper? The reputation of local government as an effective delivery agent is poor in many influential national arenas. What type of local government structures should be the platform for a successful and clearly necessary National Planning Framework should form the centre piece of any policy development for the local government system under an incoming government. *Putting People First* has created a potential platform for such thinking but most will agree that a substantial debate is now called for on what type of system is needed if the State is to continue with a form of local democracy that is relevant to the lives of the people in the country. In recent years there has almost been an on-going call for merging local authorities or an unevidenced acceptance that bigger is better. However international studies cast serious doubt on the ability of scaling up the target delivery population for many services. So there is no simple solution to what local government might look like.

It is not just about structures...internal change is needed

Putting in place a national planning framework which is underpinned by a newly configured local government system may not be enough. It is arguable that expecting an under resourced system to develop the necessary human competency, focus, strategic oversight and delivery mechanisms for such a wide brief on a county basis is a reasonable policy. When other institutional weaknesses are considered (such as an under developed regional mandate, poor linkages to the various arms of central government, a local service delivery framework still requiring re-configuration in several areas of its mandate, lack of financial autonomy in spite of recent reforms (property tax replacing other central funding schemes), etc.,) it is clear that significant strategic planning and change implementation within the local government and the local to national policy system will be necessary during the next decade.

Whereas it is not the purpose of this paper to analyse the details of such change a number of new strategic priorities are emerging from the current reform processes. Each of these will require enhanced/newly focussed human competencies, adoption of relevant trends in and learning from other sectors and an ability not just to work competently across boundaries but to influence the creation of the required flexible delivery mechanisms required in a rapidly changing macro environment. As Darwin put it "*It is not the strongest of the species that will survive, or the smartest but those able to adopt to change"*

Central to this will be the development of leadership capacity at all levels in the public sector but particularly at senior management level in local government. In the past key qualities included program delivery, administrative capacity and micro efficiency. Admirable though those abilities are, they can readily be accessed at other management levels and in other parts of the public sector and indeed through the private sector. There has been an uneven performance across the local government system in areas such as innovation, economic development, citizen engagement, social and cultural thinking delivery. The recent focus on competencies such as strategic capacity, communication etc. is a step in the right direction but this needs to be re-examined and advanced in a dynamic performance management framework.

The broad range of expertise referred to above requires senior managers who can manage resources across boundaries. This includes partnering with other agencies and sectors. Their ability to network and form associations with the complex web of local delivery agents while maintaining a strategic leadership perspective requires renewed skills and competences. Their positive contribution through inputting into the creation of coherent institutional frameworks with central and regional government and an ability to create commitment rather than compliance by such players is now a necessary feature in their managerial role. The lessons from the partial failure of both the NSS and the County Development Board/Better Local Government processes include lack of internal local government alignment and the consequently poor development of networks by local government leaders.

The development of shared services has become a feature of the recent reform process, local government has led and even excelled in the creation of new arrangements such as shared payroll, superannuation services and 20 plus other areas. It created a central project management (PMO) office to analyse business cases and coordinate implementation. The process was almost totally underpinned by the understandable need to deliver cost savings. Are cost savings the sole indicator of best practice and performance? There is an argument for enhanced performance management, underpinned by people with skills in the specialist areas defined as priorities through national and local strategic planning processes. While these will vary across the system they are likely to include legal, governance, innovation, strategic thinking, economic development, internal business creation, process improvement, enhanced communication, non-traditional funding access and many other diverse areas. A recent example is the nurturing of local food production involving knowledge of the industry and networking with other agencies including Bord Bia, farming bodies, Enterprise Ireland, sponsors, local educational managers, other authorities with relevant experience, local and national media and other partners. There are two obvious implications from this. Firstly, the necessity for robust and informed strategic planning processes to make definite choices as to which areas are to be focussed upon.

Secondly, the need to carefully examine whether such competencies are more effectively delivered at mini-regional level thus obviating the unobtainable requirement to provide all skills within each local authority. Sharing of expertise across boundaries needs to be accelerated.

The period since 2009 has seen a series of severe cutbacks being implemented leading to a fraught industrial relations climate in many organisations. This has resulted in a diminished emphasis on good human resource practices and this issue now needs renewed focus. The need to nourish good practice across organisations requires renewed regional and local HR strategic planning, redevelopment of partnership approaches, if not structures, and further delegation of HR functions to line manager level. This goes beyond the successful implementation of the current PMDS framework in local government, where progress has been uneven across the system. There is considerable capacity available in this regard through organisations such as the Local Government Management Agency, but new energy and focus is required. A renewed emphasis on the nurturing of learning organisations linked by formal and informal networks will underpin this and other areas of changing priority.

The development of the capacity and knowledge of citizens underpins the democratic system. However recent years has seen an erosion of trust by individuals and communities in the political process and our planning processes. This manifests itself in many ways and poses unprecedented challenges in Ireland and further afield. Local government has considerable, and at times, negative experience in this area and it needs to refocus on issues of social exclusion, involvement of citizens in decision-making and the coalescing of representative and participative democracy that reflects the diversity in modern Irish society. In particular the potential of policy integration processes such as the establishment of the local community development committees needs to be realised through enhanced support mechanisms at central level and local implementation mechanisms that are standard yet capable of local variation. The creation of effective institutional mechanisms to support and drive the process is nowhere more important than here. After all if these local manifestations of policy integration are not allowed to work there is not much hope for a national planning framework working, and vice versa.

Many modern strategic thinkers suggest that it is impossible to use traditional corporate planning frameworks based on previous experience as the basis for strategic planning in an increasingly changing macro environment. They call for institutional ability to cater with “black swan “ or totally unpredicted events. Recent examples include the 2008 economic crash. A more local example is the renewed focus for local authorities to provide social housing units and address homelessness of a scale unprecedented in recent decades. This requires flexibility and enhanced capabilities. It recognises that an organisation’s internal strengths can often be its greatest weakness. Local government needs to compete on relevant policy platforms and not just delivery of services. It needs to reverse the standard process of information flow and link key activities to stimuli from both external and internal change.

Central to the future is the nourishing of innovative capacity at a local level. Many examples exist ranging from tourism to community development, enterprise creation to citizen engagement as authorities innovate to create value for their communities. However, the traditional culture of local government did not always accept the degree of risk and uncertainty about outcomes which is fundamental in innovative organisations. The incorporation of business model innovation processes is a key requisite. Ireland needs to tap more fully into the unique potential of local government as a source of innovation which can deliver competitive advantage to the country as it taps into the potential of an expanding world economy.

Conclusions and recommendations for an incoming government

The next National Planning Framework, unlike the NSS, will be subject to strategic environmental assessment under the EU Directive. This means that a draft Framework must be issued for public consultation. Such an approach could provide the opportunity to open up debate on the nature of the local democratic voice in the sustainable planning and development of the State but also what is appropriate at local level. This alongside a process of research and pre-draft consultation would be beneficial in terms of enhancing the robustness and acceptability of any new spatial strategy as well as helping to inform the incoming government on just what the priorities for local, regional and national government should be. As indicated across this paper, there are many lessons which could be learnt from implementing the NSS and the recent reform of local government, among them the need for clearer definition of policy aims and implementation tools.

Secondly, effective implementation cannot rely solely on the local planning or policy system or indeed on the Department of the Environment, Community and Local Government. Other Government Departments with major capital programmes need to be closely involved in debating the nature of the national planning framework and how local government is to play its role within their planning processes and the form this might take, institutionally and structurally. Equally the nature of the local to national policy process needs consideration. If local government is to have a purpose then give it one otherwise it will continue to fade away, as it has in many respects since the foundation of the State.

Thirdly, while the role of city regions is of critical importance, the interrelationships between urban and rural areas must also be addressed. The 2013 report of the Commission for the Economic Development of Rural Areas highlighted the increasingly diverse nature of rural areas, and advocated an approach based on locally-led, place-based development[xiv].If we look to successful models for local policy development across the globe there are three key platforms, those specifically addressing rural communities, those addressing urban needs and those which characterise the rural/urban interface. Such interfaces are often at the heart of the regional planning process across the OECD. What is clear is that functionality is central to such developments and this often requires new institutional models radically different from traditional local government structures.

Suggested key messages:

1) A robust and substantive debate about what Ireland is to look like in 2035 is now required. This means tackling very controversial issues such as where people should live and recreate, be educated and employed and it might require a far more focused effort on how our major urban areas are to develop and how this might impact on a policy framework which historically failed to delineate between the needs of rural counties and those of our major city areas.
2) If cities are to become more effective drivers of regional economies, more collaborative governance structures under the leadership of local government are needed and should conceivably be underpinned by an appropriate statutory framework.
3) Gateway cities also need more financial autonomy. To cite an example from the Cork Area Strategic Plan, there have been frustrations in not being able to persuade the National Roads Authority until very recently to fund the much needed upgrade to the N28 between Cork and Ringaskiddy, which would not only have facilitated the development of the deep-water port but also opened up the huge IDA land bank for development.
4) There is, however, with greater discretionary funding, the need for local government, particularly the city authorities, to have the skills and competence to develop rigorous business case processes to ensure value for money.
5) There will be a need to fundamentally address the shape of our local government system. If the National Planning Framework and other national and international policy developments are to be given effect where is the role of the system in the national policy arena? Are our current structures fit for purpose, particularly as our society becomes more urbanised with the expectations that come with such urbanisation.
6) What of the role of local democracy? Following the recent reforms it could be argued that the establishment of the municipal districts could provide the basis for greater autonomy and decentralisation of citizen based services but does this fit comfortably with the need to ensure effectiveness and efficiency?
7) It is widely accepted that there is a symbiotic relationship between a city and its surrounding region, but not enough attention has been focused on practical measures which could help revitalise dispersed communities in the catchment area. While better broadband is one such practical measure is it possible to ensure the sustainable development of our rural communities whilst also witnessing a significant growth of our urban communities?
8) As is clear there are many questions waiting to be resolved so arguably the most important recommendation to be made is the need to start a full and frank debate on how the local government system is to be re-configured and where its mandate properly rests. Such debate was largely absent in the last round of reforms making it all the more necessary that it be applied in the next round and that, in that context, the National Planning Framework provides an incoming

government with the space in which to facilitate such debate. Failing to do so and indeed using tools such as SEA, among others, would arguably undermine much of what should be reflected in a NPF for a growing and increasingly urbanised State.

References:

[i] See for example Forfás, 'Enterprise 2010: A New Strategy for the Promotion of Enterprise in Ireland in the 21st Century' (2000); Government of Ireland, ' White Paper on rural development: Ensuring the future' (1999), chapter 4; Fitzgerald, J., Kearney, I., Morgenroth, E., and Smyth, D. 'National investment priorities for the period 2000-2006' (ESRI, 1999)

[ii] Government of Ireland, 'National Development Plan 2000-2006' (1999), pp. 43-44

[iii] See Walsh, J.A. 'The National Spatial Strategy: Rationale, process, performance and prospects', in *Administration* (Institute of Public Administration of Ireland), vol. 60, no. 3. 2013, pp. 20-28

[iv] Government of Ireland, ' The National Spatial Strategy 2002-2020: People, places and potential' (2002), p.12

[v] But see (a) Department of the Environment, Heritage and Local Government, 'Implementing the National Spatial Strategy: 2010 Update and Outlook' (2010); and (b) Meredith, D. and van Egeraat, C. 'Revisiting the National Spatial Strategy ten years on', in *Administration* (Institute of Public Administration of Ireland), vol. 60, no. 3. 2013, pp. 3-9

[vi] See National Competitiveness Council, *Our cities: Drivers of national competitiveness* (2009)

[vii] DECLG, 'Putting People First: Action Programme for Effective Local Government' (2012), appendix 8

[viii] CSO statistical release, 20 March 2015, County Incomes and Regional GDP 2012

[ix] Presentation by Niall Cussen, Principal Planning Adviser, at the National Planning Conference, Cork, April 2015

[x] Ireland will have to implement marine spatial plans by 2021 under EU Directive 2014/89; see Martin, J. 'Directive on marine spatial planning: implications for Ireland', in *Pleanáil,* issue 20, 2014, pp. 42-52

[xi] Central Statistics Office, 'Regional Population Projections 2016-2031' [CSO Dec. 2013], Table 1 Actual and projected population of Regional Authority areas, 2011 and 2031 (M2F2 Traditional)

[xii] Wind Energy in Ireland: Building Community Engagement and Social Support No. 139 July 2014,p.40

[xiii] Ibid,p.43

[xiv] Commission for the Economic Development of Rural Areas, *Energising Ireland's rural economy* (2013), p.38