

# **Joint Committee of Inquiry into the Banking Crisis**



**A submission by Tom Parlon, Director General of the  
Construction Industry Federation (CIF)**

**April 2015**

Further to the request from the Joint Committee of Inquiry into the Banking Crisis, the following submission has been prepared by Mr. Tom Parlon. Tom Parlon is Director General of the Construction Industry Federation (CIF), having succeeded Liam Kelleher in the role during 2007.

## **THE CONSTRUCTION INDUSTRY FEDERATION (CIF)**

The Construction Industry Federation (CIF) is the national and regional representative body for construction companies and contractors in Ireland. Established in 1935, it is recognised by Government and public bodies across the country as the representative body and voice of the Irish construction industry. This responsibility was reflected in its position as a social partner.

The CIF is structured so as to reflect the sectoral and regional dimension in Ireland's construction industry and to ensure the most effective and efficient support for the sector. We are owned and run by our members, via an Executive Body of 34 members. The members of the Executive Body are appointed through the various branches and associations that make up the CIF. All interests both sectoral and regionally are represented in the CIF's decision making processes.

The CIF has 13 Branches within its regional structure with offices in Dublin, Cork and Galway. Branches across the country are very active in addressing local issues with clients / local authorities and State agencies at regional level. Branch meetings provide a forum for members to meet and to input to national policy issues and to be represented in national and sectoral policy development. Branches are available to address all local area matters on behalf of members and to provide networking opportunities.

The CIF also has a number of sectoral Associations that pursue the policy objectives of their sub-sector of the industry.

The sectoral groups are divided into five main areas:

- Master Builders and Contractors Association
- Civil Engineering Contractors Association
- Mechanical & Electrical Contractors Associations
- Irish Home Builders Association
- Alliance of Specialist Contractors Associations - the umbrella group for 22 specialist sub-contracting associations within the Federation).

Some of the groups who make up the Alliance of Specialist Contractors Associations include:

- Master Painters and Decorators of Ireland (MPDI)
- Plastering Contractors Association (PCA)
- Roofing & Cladding Contractors Association (R&CCA)
- Floor Covering & Tiling Contractors Association (FC&TCA)
- Formwork Sub Contractors Association (FSCA)
- Insulating Contractors Association (ICA)
- Irish Association of Demolition Contractors (IADC)
- Irish Window Association (IWA)

- Joinery Manufacturers Association (JMA)
- Master Glaziers Association (MGA)
- National Association of Scaffolding & Access Contractors (NASAC)
- National Furniture Manufacturers Association (NFA)
- Road Safety Marking Contractors Association (RSMCA)
- Roof Manufacturers & Suppliers Association (RM&SA)
- Sheet Metal Manufacturers Association (SMA)

Additionally it has a range of different policy sub committees. The current make up of these committees are:

- Audit and Organisation Committee
- Construction Industry Register Ireland sub committee
- Finance, Assets and Working Capital sub committee
- Industrial Relations sub committee
- Manpower, Education and Training sub committee
- Procurement, Tendering and Contractual Matters sub committee
- Safety, Health and Welfare sub committee
- Taxation, Investment and Public Spending sub committee

To support the operation of the CIF and provide expert advice to the Federation's committees, associations and branches, the CIF has a dedicated team of executives and support staff. This support structure is only possible because of the centralised approach of the industry to having a single sectoral representative organisation representing its interests.

CIF services are tailored to meet the needs of members. They reflect the different requirements within the many sub categories of the industry.

Among the broad category of services we provide are:

- Information access.
- Networking opportunities.
- Representation.
- Increased recognition for member companies.
- Procurement & pre-qualification direction.
- Contractual advice.
- Health and safety expertise.
- Managing site safety issues and safety management systems.
- Payment disputes/ debt recovery guidance.
- Industrial relations advice.
- Advice on employment legislation.
- Human resources expertise and guidance.
- Planning & development advice.
- Training programmes and seminars.
- Pension scheme.

## **CIF SERVICES EXPLAINED**

### **Industrial Relations**

The CIF's industrial relations and human resource management supports are grounded in industry specific experience and expertise. Services include representation at the various labour relations fora including the Labour Court, Labour Relations Commission, Employment Appeals Tribunal as well as directly with the trade unions.

The CIF provides information, advice and support on a range of issues including:

- Guide to employment conditions in construction
- Employee handbooks
- Employment and industrial relations updates
- Up to date information on industrial relations and employment legislation
- Contracts of employment – construction specific
- Interpretation of the Registered Employment Agreement (REA)
- Advice on temporary lay-offs and redundancies
- Negotiating with trade unions at national level

### **Third Party Representation**

The Industrial Relations Department represents members at third party hearings at the following:

- LRC
- Rights Commissioners
- Labour Court
- Equality Tribunal
- Employment Appeals Tribunal

### **Safety & Health**

CIF's Safety Services Department assists members with their health and safety compliance requirements. Safety compliance and competence remains a high priority for clients and contractors. The services offered are underpinned by expert staff experienced in delivering effective construction focused advice and training.

The CIF remains one of the key stakeholders and drivers of the Construction Safety Partnership ([www.csponline.ie](http://www.csponline.ie)) and works to develop initiatives that promote better performance in safety management.

The CIF also continues to support the NISO Safety Awards to recognize excellence in this field and to allow contractors to demonstrate the expertise and commitment that exists within the construction industry in Ireland. The CIF also operates the Construction Senior Safety Advisors Group for members to facilitate networking and sharing of non commercially sensitive information for the benefit of health and safety in the industry.

## **Main Contracting**

The Main Contracting Department of the CIF provides information, advice and assistance to main contracting members of the Federation involved in general building and civil engineering contracting.

Services from the main contracting department are available to members in the following areas:

- Prequalification issues
- Tendering issues
- Contract issues
- Disputes

CIF staff will examine documents on behalf of members and provide advice and assistance in relation to risks, rights and remedies available.

In relation to private sector works, CIF members are represented on the Liaison Committee for the Building Industry which considers issues relating to private sector contracting and is made up of representatives from the CIF, RIAI, SCSi, Engineers Ireland and ACEI.

## **Specialist Contracting**

The specialist contracting group within the CIF represents contractors engaged in specialist works and in the electrical and mechanical engineering sectors.

We provide assistance to members on contractual matters in both private and public sector contracting. CIF staff can provide a detailed review of tender and contract documents and advise on the risks being presented.

With broad participation in a wide range of FDI led markets our members are active in Ireland and internationally in high technology projects.

We also represent the industry on various national committees and stakeholder groups.

## **Housing and Planning**

The CIF's Planning and Development Department address a wide range of issues that affect our members including technical, planning, economic and environmental matters.

CIF members can access expert advice on a range of development-related issues. These include:

- Planning legislation and regulations
- Compliance with building regulations
- Regional planning guidelines
- County and city development plans
- Local area plans
- Pre-planning consultation
- Development contribution schemes

- Development bonds
- Taking in charge of estates
- Owners management companies (OMCs)
- Multi-unit developments
- Social and affordable housing obligations
- Land-use zonings
- Planning appeals to An Bord Pleanala

All members of the CIF can avail of the CIF's planning and development supports, which are delivered nationally through a network of regional and local branches.

House builders operate in a complex, fast-paced and increasingly challenging regulatory and business environment. With this in mind, the services provided by the planning and development department complement the wider range of CIF services.

The department ensures that members are kept fully briefed on industry developments that will affect their businesses via regular news updates, briefing notes and seminars.

Through the CIF's branch and association structure, working groups are formed with members to assist in formulating policy on issues of importance and to facilitate the exchange of information.

### **Representation and Lobbying**

Representation and lobbying has always been a key element of the CIF's activities. As the representative body for the construction sector it is our duty and responsibility to represent the needs of the industry as a whole and to convey relevant information to stakeholders operating throughout the Irish economy.

Our position was set out clearly in the publicly available, August 2012 submission made by the CIF in response to the call for submissions on the Government's *Regulation of Lobbying Policy Proposals*.

"The Construction Industry Federation (CIF) welcomes the Government's intention to develop a register of lobbyists and to regulate the practice of lobbying in Ireland. As an organisation that has always carried out its engagement with Government in an open manner, we believe transparency should be a requirement for all political and civil service engagement when it comes to influencing public decisions.

"The CIF believes that our open approach to political interaction is the type of activity that should be encouraged by the new register. We publish our reports and policy papers, detail our positions publically and provide information about meetings and conversations concerning political and policy issues to our members and other stakeholders. We hope this is the type of activity that will be more widely practiced once the Government's proposals are enacted into law.

"As a membership representative organisation one of our prime responsibilities is to represent the views of members throughout the construction industry to Government and other relevant stakeholders. Often this involves providing and discussing these views and considerations with politicians and civil servants. This is part of a two way

process that encourages a better understanding and flow of information regarding the construction sector.

“Access to information should be key priority for all those involved in setting policy. For that reason we believe that it is essential that the CIF and other groups will be able to continue to operate the strong and transparent level of engagement that has helped create a better framework for developing strong policies that represent the national interest.”

Prime examples of the lobbying activity undertaken by the CIF include:

- Public capital spending programmes
- Public sector procurement contracts, policies and procedures
- Planning policy
- Regulation impacting on the construction industry and construction employers
- Taxation policy
- Issues of concern to specific groups of members

In order for the CIF to represent the industry, we engage on an ongoing basis with a wide range of relevant stakeholders and organisations.

Some of the major groupings, organisations and other bodies we would meet with on a regular basis are set out below.

#### **Department of Environment, Community and Local Government**

The Department of the Environment, Community and Local Government had primary responsibility for publishing the Review and Outlook for the construction industry and had been to the forefront in publishing key construction related data. This entailed a significant level of interaction with the industry, as construction policy generally falls under their remit. The type of interactions we would make with this Department would include highlighting the industry views about particular aspects of legislation or construction policy, particularly surrounding building regulations, planning policy, housing policy, waste policy, water and environmental service programmes.

#### **Department of Finance/ Department of Public Expenditure and Reform**

The CIF's interactions with these Departments are generally focused on taxation policy and public capital spending. For example in recent times we have been arguing that the taxation on building is driving up the construction costs of housing and this is acting as a disincentive towards greater levels of house building activity taking place. We have also been pressing for greater capital spending to be made available for construction projects. Between 2008 and 2013 the voted Exchequer capital spending allocations fell by 62%. As public capital spending has traditionally accounted for approximately half of all construction activity, the CIF believes further investment in specific capital construction projects will facilitate greater competitiveness in the economy, facilitate renewed economic growth and have a significant impact on job creation and activity throughout the sector. The CIF usually meets with the Minister for Finance (and the Minister for Public Expenditure and Reform since 2011), along with some Departmental officials in advance of every Budget to outline and discuss the policy proposals put forward in our annual Pre Budget Submissions.

### **Department of An Taoiseach**

Our interactions with the Taoiseach and the Department are generally around the macro position of the construction sector in Ireland and its place in the wider economy. During the years of social partnership, the CIF (as a social partner) was involved in more extensive discussions with the Department with pay and pay related issues being the main areas of focus. In recent years we have also been looking to secure the Taoiseach as a speaker at the CIF Annual Conference. We actively participated in discussions with the Department of An Taoiseach about the Government's strategy for the construction industry – Construction 2020.

### **Department of Education and Skills**

The CIF occasionally discusses the school building programme with the Minister and the Department. Another subject of ongoing interaction concerns the delivery of skills and apprentices to the sector.

### **Department of Jobs, Enterprise and Innovation**

The main point of discussion has been about the creation of jobs and investment for the sector. However since the Supreme Court decision to rule the mechanism by which Registered Employment Agreements were implemented as unconstitutional, the CIF has been discussing the need for new legislation which will help allow for new dispute resolution and wage setting mechanisms to be facilitated.

### **Department of Transport/ National Roads Authority**

Over the years the main point of discussion with the Department has been the development of the road network. However we have also discussed other elements of infrastructure such as the railway networks, ports and harbours.

### **Department of Communication, Energy and Natural Resources**

The main topics of conversation between the CIF and this Department have focused on energy and communications infrastructure – covering everything from wind energy, energy efficiency measures, the growth of the electricity network and the delivery of phone and internet services.

### **Department of Health**

Again the main discussion has concerned health related public capital spending plans around hospitals, primary care centres and other health facilities. We have also engaged with the HSE on these issues.

### **Forfás**

Significant discussions took place in relation to the preparation by Forfás of the Outlook and Strategic Plan for Ireland's Construction Sector to 2015.

### **Members of the Oireachtas**

The CIF engages on a broad level with members of the Oireachtas. This activity mainly consists of the distribution of our annual Pre Budget Submission and other relevant information materials. However we have engaged with various members of the Oireachtas on specific policy points or about upcoming legislation which is of relevance to broad elements of the Irish construction industry. Examples of this activity would include the Construction Contracts Act or the upcoming legislation to place the Construction Industry Register Ireland on a statutory footing.



**Local Authorities**

Elements of the CIF's interaction with local authorities include local road investment, water and waste water treatment, social housing investment, the formulation of the various local development plans, housing strategies, adoption of development contribution schemes and taking in charge policies and procedures.

**An Bord Pleanala**

The CIF generally meets with An Bord Pleanala once a year to discuss policy matters affecting the industry in relation to planning policy, including timeframes for decision making.

**Banks, Banking Regulators and Banking Representatives**

The CIF's interactions with banking authorities such as the Central Bank was limited in advance of the economic downturn. Banking was not a feature of the CIF's activities pre 2008. Access to finance was not an issue raised by CIF members in that period.

However since the downturn and the vast reduction in development capital being made available to Irish construction companies, the CIF has undertaken meetings with the various banks, the Central Bank and banking representatives such as the Irish Banking Federation. Our main focus has been to ascertain banking policies pertinent to the construction sector, support industry members in understanding banking policies applicable in the new banking environment and to highlight industry needs for working capital and development finance for viable construction projects. All interactions relate to broad policy matters and do not address any individual project.

## Construction in Ireland

“The construction sector has a dual role in Ireland’s economy. As a sector in its own right, it directly provides 96,300 regionally distributed jobs across a variety of occupations and skill levels, and at 6.4 percent of GNP is a key generator of wealth. The sector also provides and maintains the physical infrastructures and buildings on which every other industry and society depends. Indeed, a competitive and dynamic construction sector and property market forms a crucial part of the business environment and is a critical competitiveness factor underpinning enterprise investment and growth.”

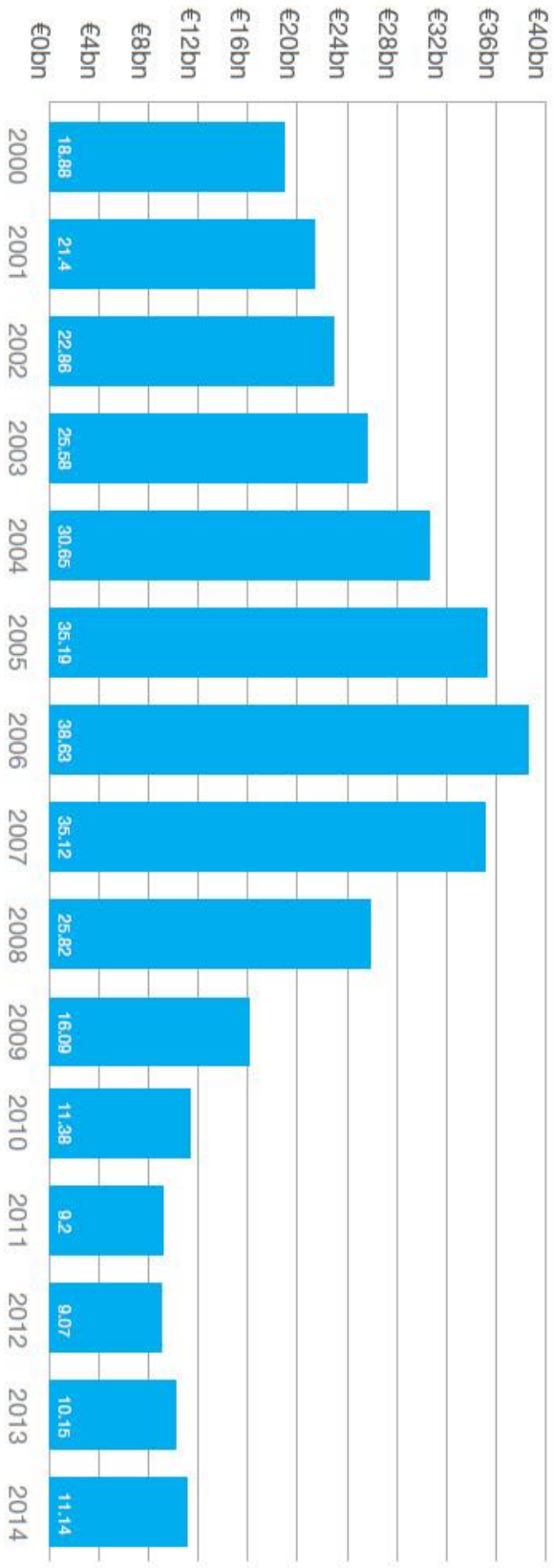
- From *Ireland’s Construction Sector: Outlook and Strategic Plan to 2015*, a Forfás Report, July 2013.

As the above quote from Forfás highlights, the construction industry has always played a very important role in the Irish economy. It has been a strong creator of jobs – directly, indirectly and via affiliated employment. It has provided a mechanism for inward investment into the Irish economy. It has built the platform and necessary infrastructure which has allowed other sectors of the economy and Irish society to operate. Construction activity has also provided a significant contribution to the Exchequer, via income taxes, development levies, VAT, stamp duty and other charges. The Irish economy went through a strong period of growth, beginning in the 1990s and running through to 2007. This period of growth reached its peak in the years from 2000 to 2007, with Ireland’s Gross National Product growing by approximately €37.87 billion over that period, which was an increase of 32.1%. However the economy started to contract from 2008, dropping €16.99 billion between 2007 and 2009 – a 10.9% drop in GNP. While we have focused on GNP it is important to recognise the significant contribution made by Irish construction activity by foreign direct investment.

Year	Ireland’s GNP	Value of Irish Construction Activity	Construction activity as a percentage of Ireland’s GNP
2000	€117.85 billion	€18.88 billion	16.02%
2001	€121.42 billion	€21.40 billion	17.62%
2002	€124.20 billion	€22.86 billion	18.41%
2003	€128.89 billion	€25.58 billion	19.85%
2004	€134.41 billion	€30.65 billion	22.80%
2005	€141.88 billion	€35.19 billion	24.80%
2006	€150.93 billion	€38.63 billion	25.59%
2007	€155.72 billion	€35.12 billion	22.55%
2008	€152.13 billion	€25.82 billion	16.97%
2009	€138.73 billion	€16.09 billion	11.60%
2010	€140.67 billion	€11.38 billion	8.09%
2011	€139.64 billion	€9.20 billion	6.59%
2012	€141.16 billion	€9.07 billion	6.43%
2013	€145.86 billion	€10.15 billion	6.96%
2014	€153.44 billion	€11.14 billion	7.26%

*\*Figures provided by the Central Statistics Office (CSO)*

Value of Irish Construction Activity



The value of activity in the construction industry was also growing strongly from the turn of the century. Between 2000 and 2006, activity in the sector more than doubled. However from 2007 onwards the value of the industry fell year on year until 2013.

A thriving construction industry began to make a larger and larger contribution to the overall domestic economic activity.

By 2006, construction in Ireland accounted for more than one quarter of Ireland's GNP. However as the downturn took hold the sector collapsed at a rate that was not in keeping with the general reduction in activity throughout the economy. The result was that the industry went from representing a very high level of Ireland's economic activity to a disproportionately low level. Industry activity fell to a mere 6.43% of GNP by 2012 – highlighting the severity with which the construction sector suffered.

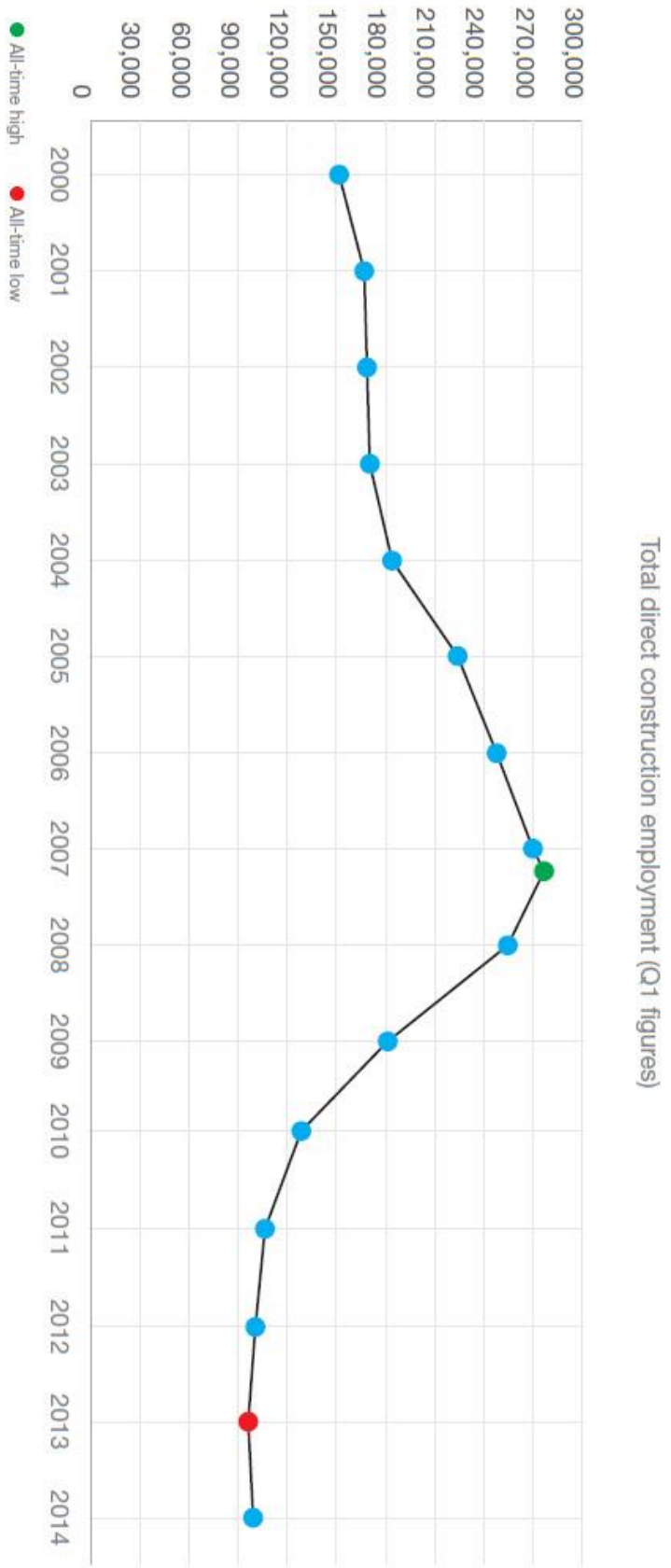
In their report *Ireland's Construction Sector: Outlook and Strategic Plan to 2015*, Forfás state, "Based on a comparison with the size of the construction industry in other countries and long-term trends for Ireland over past decades, it is plausible that an economy the size of Ireland with positive demographics and with remaining infrastructure deficits could be capable of sustaining a construction industry equivalent to around 12 percent of GNP."

These trends had a massive impact on construction employment levels. The following table highlights the total employment in the Irish economy from 2000 onwards, the total direct construction employment as well as the percentage of total employment accounted for by construction.

Period	Total employment in the Republic of Ireland	Total direct construction employment	Direct construction employment as a percentage of total employment
Q1 2000	1,735,800	154,200	8.9%
Q2 2000	1,766,200	160,800	9.1%
Q3 2000	1,811,800	167,000	9.2%
Q4 2000	1,778,600	168,300	9.5%
Q1 2001	1,776,400	169,200	9.5%
Q2 2001	1,808,000	172,200	9.5%
Q3 2001	1,865,300	177,300	9.5%
Q4 2001	1,834,900	176,100	9.6%
Q1 2002	1,834,900	173,800	9.5%
Q2 2002	1,851,300	173,400	9.4%
Q3 2002	1,885,000	181,300	9.6%
Q4 2002	1,865,700	175,500	9.4%
Q1 2003	1,868,100	175,500	9.4%
Q2 2003	1,887,500	180,300	9.6%
Q3 2003	1,924,700	185,900	9.7%
Q4 2003	1,907,300	185,500	9.7%
Q1 2004	1,922,700	188,300	9.8%
Q2 2004	1,941,000	197,800	10.2%
Q3 2004	1,989,800	213,200	10.7%

Q4 2004	1,982,600	213,600	10.8%
Q1 2005	2,000,600	225,100	11.3%
Q2 2005	2,041,500	228,900	11.2%
Q3 2005	2,089,900	236,000	11.3%
Q4 2005	2,079,400	240,100	11.5%
Q1 2006	2,102,800	247,000	11.7%
Q2 2006	2,134,100	251,700	11.8%
Q3 2006	2,183,500	269,300	12.3%
Q4 2006	2,180,800	270,000	12.4%
Q1 2007	2,211,400	270,400	12.2%
Q2 2007	2,243,600	273,900	12.2%
Q3 2007	2,277,100	270,800	11.9%
Q4 2007	2,260,600	266,200	11.8%
Q1 2008	2,260,000	255,800	11.3%
Q2 2008	2,278,300	246,100	10.8%
Q3 2008	2,300,100	235,800	10.3%
Q4 2008	2,257,200	219,700	9.7%
Q1 2009	2,225,900	182,800	8.2%
Q2 2009	2,248,900	158,200	7%
Q3 2009	2,242,400	153,400	6.8%
Q4 2009	2,198,700	138,900	6.3%
Q1 2010	2,176,000	130,600	6%
Q2 2010	2,198,700	126,500	5.8%
Q3 2010	2,196,700	115,900	5.3%
Q4 2010	2,168,200	111,000	5.1%
Q1 2011	2,149,400	108,500	5%
Q2 2011	2,178,700	106,400	4.9%
Q3 2011	2,173,700	108,500	5%
Q4 2011	2,161,500	107,800	5%
Q1 2012	2,146,900	103,300	4.8%
Q2 2012	2,159,100	99,600	4.6%
Q3 2012	2,165,800	101,100	4.7%
Q4 2012	2,143,500	103,200	4.8%
Q1 2013	2,137,500	96,300	4.5%
Q2 2013	2,170,700	102,700	4.7%
Q3 2013	2,182,100	105,400	4.8%
Q4 2013	2,163,100	103,600	4.8%
Q1 2014	2,146,300	102,300	4.8%
Q2 2014	2,156,100	106,300	4.9%
Q3 2014	2,172,400	112,400	5.2%
Q4 2014	2,152,500	116,700	5.4%

*\*Figures provided by the Central Statistics Office (CSO)*



These figures show that direct construction employment dropped by 177,600 from the peak employment levels in Q2 2007 to the first quarter of 2013. The CIF estimates that when indirect and affiliated employment is also factored in, the downturn in the construction industry resulted in the loss of approximately 250,000 jobs.

This had a massive detrimental impact on the economy which is still being felt today. According to recent figures released by the Department of Social Protection, there are approximately 80,000 former construction workers currently on the Live Register. This means the construction sector still accounts for the highest number of people out of work in this country.

As well as the major role played by construction employment on the Exchequer income and expenditure returns, construction activity also made other substantial income contributions to the public purse.

For example the level of stamp duty activity increased substantially during the boom years as property and land sales helped increase this particular source of revenue.

Please see the table below.

Year	Total tax	Stamp Duty	Stamp Duty as a percentage of total tax
2000	€27.07 billion	€1.11 billion	4.1%
2001	€27.93 billion	€1.23 billion	4.4%
2002	€29.29 billion	€1.17 billion	4.0%
2003	€32.10 billion	€1.69 billion	5.3%
2004	€35.58 billion	€2.09 billion	5.9%
2005	€39.25 billion	€2.72 billion	6.9%
2006	€45.54 billion	€3.72 billion	8.2%
2007	€47.25 billion	€3.19 billion	6.8%
2008	€40.78 billion	€1.65 billion	4.0%
2009	€33.04 billion	€0.93 billion	2.8%
2010	€31.75 billion	€0.96 billion	3.0%
2011	€34.03 billion	€1.39 billion	4.1%
2012	€36.65 billion	€1.43 billion	3.9%
2013	€37.81 billion	€1.34 billion	3.5%
2014	€41.28 billion	€1.69 billion	4.1%

*Actual Outrun Figures from the Department of Finance Databank*



Development contributions were another form of revenue from construction activity. In a September 2010 report on development contributions, the Department of Environment, Heritage and Local Government stated,

“[development contributions] represent an essential source of funding for local authority capital projects... The introduction of the development contribution schemes... resulted in an increase in flexibility for planning authorities in the range of projects which could be funded from development contributions. This increased flexibility together with an unprecedented growth in the levels of construction activity in Ireland resulted in a significant increase in the development contributions levied since the introduction of the new schemes until 2008, where a reversal of the growths trends in construction activity of the previous three years occurred.”

The following table from that report sets out the level of development contributions made from 2000 to 2008.

Year	Development Contribution Receipts
2000	€110 million
2001	€122 million
2002	€151 million
2003	€215 million
2004	€337 million
2005	€519 million
2006	€671 million
2007	€632 million
2008	€370 million

*Taken from Department of Environment, Heritage and Local Government Report, Value for Money Unit, Local Government Audit Service – Development Contributions, September 2010*

## Housing

Housing output in 1993 amounted to 21,391 housing units. Over the subsequent decade, housing output increased to 68,819 (2003), peaking at 93,419 in 2006 and falling rapidly to 78,027 (2007), 51,724 (2008), 26,420 (2009), 14,602 (2010), 10,480 (2011) and 8,301 (2013). The CIF issued its projections in relation to level of house building taking place annually at the time, and was to the forefront in highlighting the scale of the collapse in housebuilding activity that was due to unfold on an annual basis over the years 2008 to 2013.

Notwithstanding the high level of housing construction activity in the years up to 2006, based on population projections and forecasts of economic growth, employment and interest rates, a number of estimates of housing demand were made. The NESO, in its Report titled *Housing in Ireland* (No 112, November 2004), acknowledged that “the anticipated increase in population and the existing backlog in demand (as reflected in the historically lower ratios of dwellings to population size) mean that a significant level of additional housing output is likely to be required over the next decade. The evidence suggests that annual housing output now exceeds the underlying level of demand, although there remains significant pent up demand within the housing system. With the current high level of output, balance between supply and demand should be achieved in the coming years, although imbalances may persist for a time in certain locations or market segments. What is less certain is the point at which annual housing output will decline.”

The above reference sums up the housing market at the time. Housing demand far exceeded supply as the industry strove to increase output to meet the demand. Increasing land prices drove up the replacement cost of development land, adding to the cost facing house builders. As Marie Hunt of CBRE said in her submission to the Banking Inquiry, “a total of €12.5 billion was invested in 986 individual development land transactions in the period 2001-2008... The volume of spend increased more than nine-fold between 2001 and the peak in 2006 when over €4 billion was invested.”

Builders secured finance to purchase residentially zoned lands, secured planning permission, and secured development finance to build the units and purchasers secured mortgages to purchase the homes. While the errors in building the scale of housing in some parts of the country is fully acknowledged by the industry, the participation of planning authorities in zoning the lands, the banks in making land and development finance available, and the planning process for granting the required planning permissions are all matters that persisted at the time. At the same time, the revenue collected by local authorities from development contributions increased from €110m in 2000 to €519m in 2005, to €671m in 2006.

During this time, an analysis of the tax take from each house built was undertaken by the CIF which illustrated that up to 40% of the sales price of each new house was in direct or indirect taxation - including development levies, VAT, contributions to social and affordable housing, stamp duties as well as pay related taxation.

According to an Interdepartmental Committee Report (2007) on Development Levies, the projected income from development contributions would amount to 8.5% of the total Capital Investment Programme over 2006 – 2008. According to the National

Development Plan, it was estimated that €2.1 billion would be collected in development contributions during the lifetime of the plan (2007-2013).

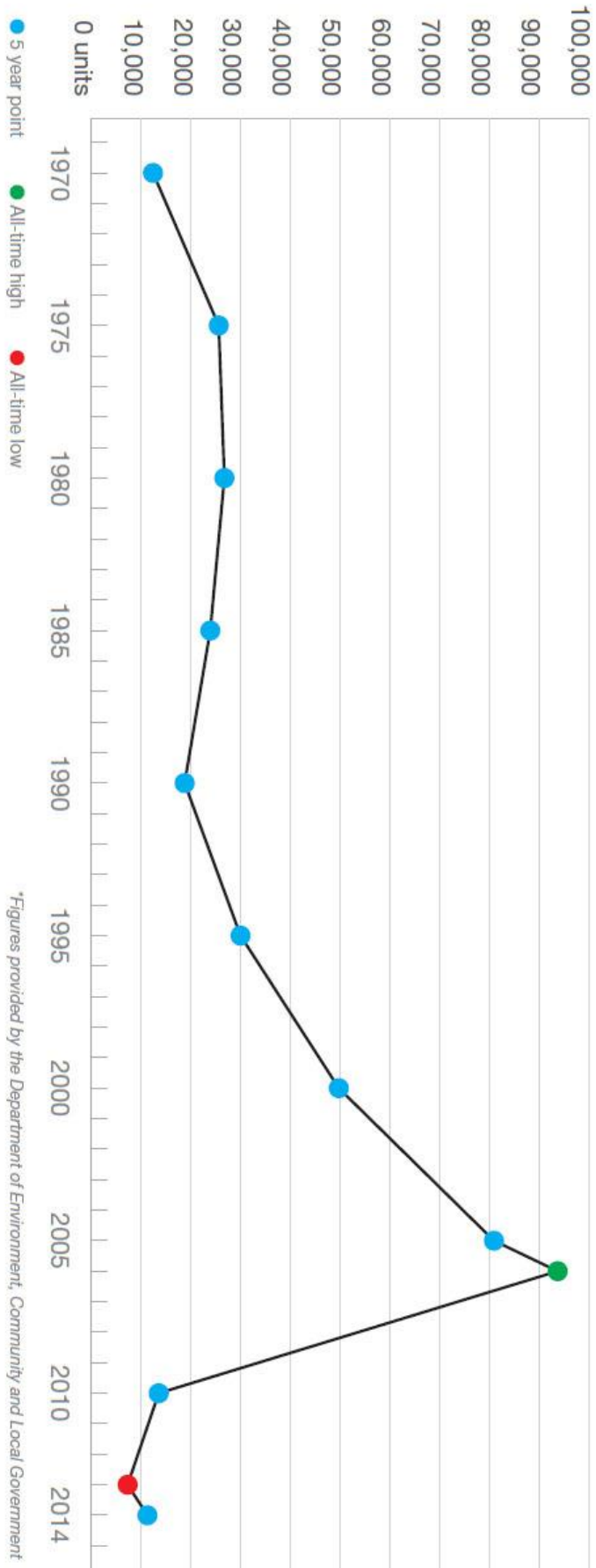
On an overall basis, while house building activity remained very strong between the years 1996 to 2011 at 789,214 new housing units, the national population grew from 3,626,000 to 4,581,00 during this period, an increase of 955,000 persons. At the same time household size fell from 3.25 persons per household (1996) to 2.78 persons per household (2011), still high by European average household size. Average European household size is 2.4 persons (2011).

**Total Housing units built per year**

<b>1970</b>	13,887	<b>1992</b>	22,464
<b>1971</b>	15,380	<b>1993</b>	21,391
<b>1972</b>	21,572	<b>1994</b>	26,863
<b>1973</b>	24,660	<b>1995</b>	30,575
<b>1974</b>	26,256	<b>1996</b>	33,725
<b>1975</b>	26,892	<b>1997</b>	38,842
<b>1976</b>	24,000	<b>1998</b>	42,349
<b>1977</b>	24,548	<b>1999</b>	46,512
<b>1978</b>	25,444	<b>2000</b>	49,842
<b>1979</b>	26,544	<b>2001</b>	52,602
<b>1980</b>	27,785	<b>2002</b>	57,695
<b>1981</b>	28,917	<b>2003</b>	68,819
<b>1982</b>	26,798	<b>2004</b>	76,954
<b>1983</b>	26,138	<b>2005</b>	80,957
<b>1984</b>	24,944	<b>2006</b>	93,419
<b>1985</b>	23,948	<b>2007</b>	78,027
<b>1986</b>	22,680	<b>2008</b>	51,724
<b>1987</b>	18,450	<b>2009</b>	26,420
<b>1988</b>	15,654	<b>2010</b>	14,602
<b>1989</b>	18,068	<b>2011</b>	10,480
<b>1990</b>	19,539	<b>2012</b>	8,488
<b>1991</b>	19,652	<b>2013</b>	8,301
		<b>2014</b>	11,016

*\*Figures provided by the Department of Environment, Community and Local Government*

Total housing units built per year



Year	Total housing commencements (starts)
2004	77,691
2005	77,709
2006	75,602
2007	48,876
2008	22,852
2009	8,599
2010	6,391
2011	4,365
2012	4,042
2013	4,708

*\*Figures provided by the Department of Environment, Community and Local Government*

#### **Population of the Republic of Ireland**

Year	Population
1970	2,950,000
1971	2,978,000
1972	3,024,000
1973	3,073,000
1974	3,124,000
1975	3,177,000
1976	3,228,000
1977	3,272,000
1978	3,314,000
1979	3,368,000
1980	3,401,000
1981	3,443,000
1982	3,480,000
1983	3,504,000
1984	3,529,000
1985	3,540,000
1986	3,541,000
1987	3,547,000
1988	3,531,000
1989	3,510,000
1990	3,506,000
1991	3,526,000
1992	3,555,000
1993	3,574,000
1994	3,586,000
1995	3,601,000
1996	3,626,000
1997	3,664,000

1998	3,703,000
1999	3,742,000
2000	3,790,000
2001	3,847,000
2002	3,917,000
2003	3,980,000
2004	4,045,000
2005	4,134,000
2006	4,233,000
2007	4,339,000
2008	4,422,000
2009	4,459,000
2010	4,470,000
2011	4,581,000
2012	4,585,000
2013	4,593,000

*Figures taken from the CSO Census as well as the CSO Birth and Death statistics*

## **NAMA**

As the economic and banking crisis unfolded, it was clear to the CIF that its members would be subject to an entirely different banking environment and that the establishment of NAMA would have a profound effect on the ability of some members to support their ongoing businesses.

As the establishment of the National Asset Management Agency was being contemplated by Government and the National Asset Management Agency Bill 2009 was published, the CIF engaged PJ O' Driscoll & Sons Solicitors Cork to examine the Bill and set out concerns in relation to the Bill for both industry and Government. In particular, issues raised included the following:

- NAMA should have a duty to get best price
- Protection against creditors applying for winding up orders
- Need for competitive banking services
- Requirement for policies and criteria governing the selection of borrowers and assets for realization
- Avoidance of Public Procurement re workouts
- Requirement that performing loans should not be transferred to NAMA
- Requirement for clarification and valuation proposals
- Role for borrowers bank in relation to work outs
- Scope for judicial review of proceedings
- Confidentiality
- Foreign law issues
- Assignment of a loan without the consent of borrower
- Compulsory purchase powers
- Mandatory participation by banks
- Requirement for dispute resolution mechanism
- Design and construction team / contracts and warranties
- Requirement for a sunset clause and;
- Requirement for a clear exit strategy

This report was submitted to Government for appropriate consideration.

In November 2009, the Federation outlined its suggested amendments to the NAMA Bill in a letter to then then Minister for Finance under a range of headings including:

- Request for a viable construction and property development sector;
- Breach of loan to value covenants;
- Associated debtors/ loans;
- Family home;
- Practical conveyancing issues;
- Board membership;
- 80% tax rate;
- Working capital; and
- Valuation of assets

In June 2009, the Federation commissioned an independent firm of UK based economic consultants, Lombard Street Research to prepare its report in relation to the establishment of NAMA and what was considered appropriate by Lombard Street Research in respect of the Irish economy at the time. The terms of reference for the appointment of Lombard Street Research included:

- An analysis of Dr Peter Bacon's paper proposing the creation of NAMA, particularly focussing on the relative size of NAMA's suggested scope in the light of any similar international experience and the relative scale of the exposure taken on by the Irish Exchequer;
- An analysis of the impact of NAMA on the Irish property and finance sectors over the next 5 years, notably with reference to competition and efficiency aspects;
- An assessment of the issues relating to funding of NAMA, including possible private sector participation;
- The relative advantages and disadvantages of using long term economic valuation over market valuation to value loans being initially transferred to NAMA; and
- An outline for how the scope (in operations as well as in time) of NAMA needs to be fixed to ensure that the Irish construction/ property sectors become substantially market based in the future.

The general recommendations of this Lombard Street Research Report included:

- Requirement to establish political consensus before embarking on any action;
- Only shift bad loans to NAMA;
- Set up individual bad banks for each participating bank and/or let the originating bank administer the loan work-out under NAMA supervision;
- Actively encourage private participation;
- Set a clear exit strategy;
- Stimulus;
- Temporarily nationalise failing banks;
- Put failing banks into conservatorship.

A subsequent report was commissioned one year later in November 2010 in relation to 'NAMA - one year later'. Key recommendations of this report included:

- NAMA should be a developer and not just a liquidator;
- NAMA should accept an element of debt restructuring;
- NAMA should be more receptive to outside capital;
- NAMA should cease to acquire unimpaired loans; and
- NAMA should drop its "objective" of radically restructuring the Irish construction industry.

Information meetings for CIF members were scheduled on a regional basis in relation to operational matters, the NAMA data pack which addressed loans, security of these loans and general organisation of borrowers' details which were to be submitted to NAMA. These meetings were attended and addressed by NAMA representatives. The briefings offered CIF members information in relation to the preparation of debtor business plans and how the new relationships to be developed with NAMA could unfold.



Over the following months the CIF updated its members in relation to a range of operational issues including NAMA guidelines in respect of expected debt recovery and the structure of future cash flows between debtors and NAMA. Such operational issues included as follows:

- Debt reduction
- Cash sweep
- Working capital
- Development funding
- Income generation

## **Conclusion**

The level of activity in the construction industry reached unsustainable levels during the boom years. This meant that too many houses were being built and too much of the economic activity was dependent on the sector.

Through the downturn the sector suffered to a far greater extent than practically any other industry. The result was that the construction activity fell to a disproportionately low level. This has also had a significantly negative impact on the economy.

The Irish economy needs a sustainable construction sector which is operating at approximately 12 percent of GNP. That will not only be good for the industry but it is also in the interests of the wider economy.

ENDS.