UPDATED BRIEFING NOTE

Transport Aspects of Budget 2018 and Mid-Term Review of the Capital Plan

Budget 2018

The general taxation changes have already been widely reported in media coverage of Budget 2018 but there was little else of significant relevance to the logistics and transport sector. A couple of issues are worthy of brief comment:

- There was no increase in the tax and duty payable on motor fuels despite some commentary suggesting a need on environmental grounds to close the taxation differential between petrol and diesel.
- A zero rate of benefit-in-kind (BIK) is being introduced for electric vehicles. This will apply for a period of one year to allow time for a comprehensive review of BIK on motor vehicles which will inform decisions for next year's Budget. This incentive is in addition to the existing maximum VRT relief of €5,000 and the Sustainable Energy Authority of Ireland grant of up to €5,000.
- A review of the carbon tax will be carried out by the Department of Finance and ESRI with a view to bringing forward proposals for Budget 2019 "around the role of the tax in driving changes to behaviour in households and business".
- Proposals for discussion will be published next year in relation to VRT on leased vehicles. This is to meet the requirements of a European Court of Justice decision in September which struck down the existing arrangements which provide for the charging of full VRT upfront on short term imports of cars. This primarily impacts on the car hire business.
- A Brexit loan scheme of up to €300 million at competitive rates for SMEs was announced.

2018 Estimates of Public Expenditure

The Estimate of the Department of Transport, Tourism and Sport provides for a total expenditure in 2018 of €2.026 billion, up 12% on the Revised Estimate for 2017. Current expenditure is up €19 million to €699 million (an increase of under 3%) while capital expenditure is up €197 million to €1,327 million (an increase of over 17%).

Looking at the transport component of the 2018 Estimate, the biggest increase is in the provision for land transport, up 14% from €1,456 million to €1,657 million. All but €10 million of this increase is on capital expenditure. There are only marginal increases for maritime transport (+2%) and civil aviation (+1%).

The modest €10 million increase in current expenditure suggested, on the face of it, that there would be little extra funding in 2018 for road maintenance and PSO payments to support the provision of public transport services. However Minister Ross has announced that the PSO will be increased by 8% in 2018, which represents around €20 million extra. This will include some unspecified increase in funding for the Rural Transport Programme. The increase in PSO funding implies that there will be nett reductions in the remaining current expenditure.

The €190 million increase in capital funding in 2018 is much more significant. Based on the information published to date, the following are some of the key points:

- Over €400 million is being allocated to investment in public transport, around a quarter of the total capital provision in 2018. This will be used to maintain and enhance the capacity and quality of the public transport network in order to encourage greater use. Projects mentioned are the completion of Luas Cross-City which is scheduled to open this December and the maintenance and renewal of the heavy rail network. There is also likely to be continuing funding for the purchase of buses for use on PSO services and for bus priority, cycling, walking and traffic management projects in the principal urban areas. There will also be funding for the BusConnects programme, announced earlier this year and intended to fundamentally transform Dublin's bus system.
- Upwards of €430 million will be spent on the national road network. This will Progress major capital projects including the Naas to Newbridge Bypass widening/Sallins Bypass/Osberstown interchange project, the upgrading of the Nangor and Adamstown Roads near Grange Castle Business Park in southwest Dublin, the continuation of work on two PPP projects (New Ross Bypass and the Gorey to Enniscorthy section of the N11) and planning, design, land acquisition and advance works on other major road projects including N5/N22 Dunkettle interchange, N22 Ballyvourney to Macroom, N4 Collooney to Castlebaldwin and N5 Westport to Turlough. The Dunkettle and Collooney to Castlebaldwin projects are scheduled to start construction in 2019.
- Continued grant support for the national, regional and local road network including programmes to reseal and strengthen roads, bridge strengthening and safety improvement works.
- Grant assistance of €10 million will be provided to Donegal County Council to repair roads and bridges damaged in the recent severe weather.

Medium Term Estimates 2018 to 2020

The new multi-annual expenditure ceilings for the Department of Transport, Tourism and Sport, published on Budget Day, show total Exchequer expenditure growing from €2,026 million in 2018 to €2,366 million in 2019 and €2,781 million in 2020. Most of the increase is in capital expenditure with current expenditure only growing from €699 million in 2018 to €723 million in both 2019 and 2020. These forward planning figures suggest that there will be very limited increases in current expenditure over the next three years and this will in turn mean very little extra money for road maintenance and PSO payments to support public transport services. The impact on roads will be offset by the likely significant increase in capital funding but there is a much lesser prospect of significant growth in the capacity of public transport services requiring subvention unless the figures change with time.

Mid-Term Review of the Capital Plan 2016 to 2021

The results of the Mid-Term Review of the Capital Plan 2016 to 2021 will see a total additional investment in public infrastructure of €4.3 billion over the next four years. Most of that overall increase will take place in the final three years, with only an extra €206 million in 2018. Among the priorities identified for public capital investment are "public transport and the maintenance and upgrading of the road network".

The capital allocation for the Department of Transport, Tourism and Sport will increase by a total of €1,258 million (+20%) to €7,554 million over the next four years. This is the largest increase afforded to any Department and accounts for 29% of the total planned additional Exchequer capital expenditure. The increase is even greater (+€1,542 million or 26%) when compared with the figures in the original Capital Plan published in October 2015.

The annual increase is as follows:

2018	up €45 million (+ 3.5%) to €1,327 million
2019	up €315 million (+24%) to €1,643 million
2020	up €413 million (+25%) to €2,058 million
2021	up €485 million (+24%) to €2,526 million

The increase is substantially backloaded to the final three years of the Capital Plan. The original 2015 Capital Plan exceptionally included a year 2022 provision for transport but this has not been repeated in the Mid-Term Review.

The Budget Statement indicated that a new comprehensive ten year National Investment Plan will be published later this year in tandem with the proposed National Planning Framework.

The background documents for the Mid-Term Review, which can be accessed on the website of the Department of Public Expenditure and Reform http://www.per.gov.ie, contain some interesting observations on the reasons for the increased investment in transport. They note that transport demand is closely linked to economic growth and the performance of the economy. As the economy expands the number of commuters and the level of trade generally increases.

Overall road use is now above its previous peak in 2008 and capacity and level of service concerns are already evident in urban regions. Public transport use is also growing but is still below the previous peak. However the Review recognises a clear need for additional public transport investment to:

- Assist in catering for overall growth in transport demand in urban centres;
- Support the objectives of the new National Planning Framework (currently at public consultation and due to be published later this year);
- Contribute to climate change goals.

The Review notes that maritime transport demand is also growing but still below the 2007 peak while air transport demand is already above the previous peak, primarily driven by growth at Dublin Airport.

The Mid-Term Review also identifies a number of specific drivers of transport demand:

- **Domestic economic conditions:** Higher employment levels lead to increased commuting.
- **International economic conditions:** Economic conditions in trading partner countries impact on freight and tourism flows.
- **Demographics:** Population growth and a changing age profile influences overall transport demand.
- **Spatial development:** The regional distribution of population and employment impacts on travel patterns and demand.
- **Socio-cultural factors:** Changes in social and cultural patterns can affect the choice of travel mode.
- **Infrastructure:** New infrastructure, as well as meeting existing demand, can induce new demand for travel.
- **Technological change:** Changes such as e-working and e-shopping can reduce demand for travel.
- **Transport costs and energy prices:** The cost of travel, including fuel and other costs, can affect demand for travel.

The overall conclusion of the Review is that there is a compelling case for increased investment in transport because issues are emerging which may serve as a constraint on continued economic growth. In particular, transport demand around urban centres is posing a constraint. Roads are providing a low level of service due to congestion and in some areas the level of service is either unstable or at breakdown point. Increasing urban transport demand highlights a need for investment in additional capacity where significant bottlenecks exist.

The Review also identifies a clear requirement for additional investment in public transport to assist in catering for overall growth in transport demand in urban areas, to support the objectives of the National Planning Framework and to contribute to the achievement of climate action goals.

Based on the documents published on Budget Day and information which subsequently came into the public domain, it is possible to give an indication of how this significant additional funding will be spent:

- A total of €7.55 billion in capital funding is available to the Department of Transport, tourism and Sport over the next four years. About €360 million will be allocated to tourism and sport, leaving almost €7.2 billion for transport.
- A total of €2.7 billion will be allocated to public transport – over €400 million in 2018, €500 million in 2019, €700 million in 2020 and €1.1 billion in 2021.
- Within this public transport provision, €750 million is being allocated for the Bus Connects programme which is designed to bring about major changes in the bus network in Dublin. This is a very substantial funding commitment and, if accompanied by the necessary additional PSO funding, should permit major improvements in the quality and quantity of bus services provided in the Greater Dublin Area.
- Some €680 million is being allocated to rail. This will be used to fund increases in Luas capacity (extra and longer trams), an increase in the heavy rail fleet and the continuation of work on the City Centre Resignalling Project in Dublin. Funding will also be provided to progress other projects including a new central control centre for the railway and electrification of the lines to Balbriggan and Maynooth as part of the wider DART Expansion Programme. Electrification of the Kildare line to Hazelhatch will be considered for inclusion in the new 10 year investment programme which it is planned to publish later in 2017. Although not mentioned in the public announcements, there is likely to be continuing investment to maintain and renew the existing rail infrastructure.
- Planning work will continue on the new Metro North and DART Expansion Programme in Dublin. The target for Metro North continues to be to start construction in 2021 and commence passenger services in 2027.
- Over €30 million will be spent to retrofit older public transport facilities, such as train stations, to improve accessibility for people with mobility impairments. This doubles the previously planned investment and will be available throughout the country.
- A total of €2.4 billion will be invested in the national road network. A number of major road projects are likely to be undertaken. This will include the completion of those already under construction and the start of work on a number of projects currently in planning (see the list in the earlier section on the 2018 Estimates). Also mentioned are two projects on the N56 (Mountcharles to Inver and Dungloe to Glenties). There is also likely to be expenditure on a range of smaller projects around the country, particularly those which are required to support economic and residential development.

- While there is no specific reference to funding of regional and local roads, there is likely to be significant expenditure on the rehabilitation and renewal of these roads, including pavement renewal, bridge strengthening and safety-related works. There is also likely to be modest spending on new road construction, particularly roads which are required to assist housing development and job creation in the enterprise sector.
- Three major environmental sustainability schemes will be funded to a total of €280 million. €35 million is being provided to support innovative ideas that will help to decarbonise the transport sector. A new grant to fund electric taxis will be introduced and administered by the National Transport Authority.
- A total of €110 million is being allocated for pedestrian and cycling facilities in urban areas, which is a threefold increase on the original provision.
- Extra funding will be provided for coastguard stations, to upgrade equipment and develop new IT systems.

The full Budget documentation can be accessed on http://www.budget.gov.ie.

Information can also be accessed on the Department of Transport, Tourism and Sport's website at http://www.dttas.ie/content/press-centre.

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The opinions expressed in this briefing note are those of the author and do not necessarily represent the views of the Institute.