

Capital Spending

Monday, 26 July 2010

The Government today announced its new capital spending plans in light of the economic downturn. It plans to spend €39bn on infrastructure between now and 2016, with the overall project cut by €1bn for this year. It is hoped that the capital expenditure plans will indirectly create 270,000 jobs over the next six years.

The Government believes that significant savings can be realised over the course of the capital envelope owing to: (1) The enhanced quantity and quality of capital stock achieved in recent years; (2) A lower demand for capacity in the economy over the medium-term; and (3) Improved opportunities for value for money. A high level of capital stock, relative to demand, can therefore be supplied from a lower level of nominal expenditure.

The revised Public Capital Programme also incorporates a new '*Capital Reserve Fund*'. This Fund will be used to finance emerging investment priorities which may arise over the medium-term. The Fund will only be drawn upon in circumstances where economic developments present emerging opportunities for investments which produce demonstrable net benefits to the State. The net effect of the revised capital investment programme in the years to 2016 is a refocused set of priorities which can assist in economic recovery and the important transition to a low carbon economy. The focus is on the outcomes that this investment can bring. The new direction of investment policy is also evident in changing allocations to each area.

Among the key trends discernable from the new direction in infrastructure investment are: (1) A move away from road transport in favour of public transport, reflecting the fact that the motorway network between Dublin and the main regional centres is substantially complete and a high-level policy shift in favour of public transport; (2) A very significant increase in the focus on water services investment driven by the need to address remaining deficiencies in water infrastructure in key urban areas and the need to meet pressing environmental targets; (3) A reduction in the allocation to housing programmes owing to the major changes in that sector; and (4) A doubling of the share of total investment delivered through the Enterprise Development Agencies demonstrating the commitment to realising the goals of the Smart Economy and the need to return to sustainable employment creation.

In the short-term the key capital spending projects include: (1) The completion of motor-way connections between Dublin and the main regional centres; (2) The completion and opening of Conference Centre Dublin; (3) Progress on the remaining stages of the Ballymun Regeneration project and the initiation of Phase 1 of Limerick Regeneration; (4) The commencement of Metro North and Dart Underground, subject to Government decision; (5) The suite of projects contained in the *Water Services Investment Programme, 2010-2012*; and (6) A range of small-scale tourism projects also on a nationwide basis.

Despite these difficult economic times, the Public Capital Programme remains quite ambitious and is still proportionately one of the highest spends on capital in the EU. However, one has to question whether going ahead with the likes of the Metro North project makes much financial sense at this juncture especially when the money saved could probably be put to better immediate use. Although the Government is aiming for capital spending of €39bn between now and 2016, it would be no great surprise if there was a rowing back on some of this in the coming years, especially if financial conditions remain tough in the interim.

Written by Alan McQuaid.

Direct Tel: +353 (0)1 611 9226

E-Mail: mcquaida@bloxham.ie

This publication is solely for information purposes and cannot be construed as a representation by Bloxham. The views in this report are expressions of opinion and are given in good faith, but are not guaranteed. These are subject to change without notice.

Published by Bloxham © 2010.

Bloxham is a Member of the Irish Stock Exchange and the London Stock Exchange. Regulated by The Financial Regulator.

26/7/10