Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Corporation Tax: DETI Permanent Secretary Briefing

18 April 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Patsy McGlone (Chairperson)
Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Paul Frew
Mr Alban Maginness
Ms Maeve McLaughlin
Mrs Sandra Overend

Witnesses:
Mr David Sterling Department of Enterprise, Trade and Investment

The Chairperson: With us today is Mr David Sterling, the permanent secretary of the Department of Enterprise, Trade and Investment (DETI). Mr Sterling, you are welcome. Thank you for facilitating us. I know that the Minister cannot make it to see us until 9 May, I think it is, but it is good to have you here, because I know of your role in these matters.

It would be helpful if, in the first instance, you gave us some sort of an overview of how we have got where we are. It will be important for Committee members to hear what is being considered because, as you know, a lot of the economic development strategy is heavily predicated on the reduction of corporation tax as a measure that would facilitate foreign direct investment in particular. However, as we have seen, Mr Cameron has kicked the tin well down the alleyway and does not appear to have any notion of doing it at all. I am sure that that is tied in with other matters, such as Scottish independence, and so on, but that is really not our concern.

I presume that, at some stage, somebody considered the possibility of this not happening. We see an economic development strategy that is heavily predicated on a reduction in corporation tax, which is clearly not going to happen for the foreseeable future. It would be helpful to hear the Department of Enterprise, Trade and Investment's thinking about a plan B or about the development of a plan B.

We also have a transcript of the comments that the Secretary of State made on radio on the morning of 27 March, shortly after Mr Cameron made his announcement. She referred to:

> *"a wider economic package to pursue in parallel with work on corporation tax and that includes a significant transfer of structural funds so that Northern Ireland ends up with €181 million more than would have been the case if we had stuck to the EU formula. Also a continuation of 100% assisted area status ... additional £50 million of Peace IV funding on top of what was agreed in Brussels and issues like an expanded offer on enterprise zone tax allowances".*

On the face of it, those things seem to be extra, or they at least hold the potential for something extra. I would be interested, as I am sure would the Committee, to hear whether that is something new or additional or whether it is something that has always existed and would have been there in any event. Arguments about whether we arrive at a shared future strategy and all those issues aside, I would just like your take on whether what the Secretary of State is talking about is notional or actual.

Mr David Sterling (Department of Enterprise, Trade and Investment): OK. You asked me to cover quite a bit of ground. Thank you for the invitation and for accommodating me in your agenda.

I will perhaps start with the economic strategy. You are right: the economic strategy was constructed and agreed by the Executive on the basis that we were going to pursue corporation tax. However, I stress that all the economic strategy's targets assume that we have not got corporation tax powers. So, in a sense, if we do not get them, we will still pursue the economic strategy and we will still believe that it will improve our economy, albeit that we believe that corporation tax powers would allow us to accelerate that. I think that the economic strategy makes it clear that if we got those powers, we would have to reset our targets and make them more ambitious, particularly on jobs, prosperity, etc.

I will give a very brief history of where we have got to with corporation tax. As you recall, a joint consultation was launched on it two years ago. Following the close of that consultation, there was a lot of close working between Executive Ministers and Treasury Ministers through the joint ministerial working group. That resulted in October to an agreed paper's being presented to the Prime Minister. That paper summarised the progress that had been made and identified three outstanding issues between the two sides, which, I think, I briefed you on when I was here previously. I can go over that again if you wish. The meeting on 26 March was designed to seek the Prime Minister's agreement to the devolution of those powers. As has now been widely reported in the media, the Prime Minister said that he would be unable to take a decision on that before the Scottish referendum, which is on 18 September 2014. As reported in the media, our Ministers pressed the Prime Minister very firmly on that. They were particularly concerned that although he was saying that he was still keen to do it, he did not explain satisfactorily to them how he would do it if he took a decision only in September 2014.

If it is thought that there will be a general election by May 2015 at the latest, the concern from our perspective is that there will be one Finance Bill before the end of Parliament. Traditionally, the final Finance Bill of a Parliament is agreed between the Government and the Opposition. In other words, it does not go through the normal detailed, line-by-line scrutiny. Agreeing that Finance Bill inevitably means that anything that is contentious or controversial gets dropped and only those things that can be agreed between the two sides easily tend to go through. So, our concern is that corporation tax powers are something that the Conservatives have said that they would be prepared to do for Northern Ireland. Labour has said that it would not oppose them but that it would not introduce them. So, our concern is whether they would be prepared to agree them in Parliament's final Finance Bill, and I think that our Ministers were not convinced with the responses that they got on that.

On the back of that, you referred to suggestions in the media that the Secretary of State put forward on the Government's behalf. We are now looking at those on Ministers' behalf. That is a brief summary of where we are.

I will stop there, and you can maybe ask me questions about detail.

The Chairperson: To get back to what the Secretary of State said, is that actually new, additional money or is it just money that has been floating around in any event? It is a bit unclear. Is that money that Northern Ireland would have access to anyway, or is there just a bit of PR gimmickry going on?

Mr Sterling: Forgive me, Chair; I would not want to comment on each of the proposals at this stage. We are looking at them on Ministers' behalf at the moment. Some things have been reported in the media, such as when the Secretary of State referred to the proposal to agree to give us 100% coverage in the new regional aid guidance, which, again, I briefed you on previously. You, very helpfully, have written in support of that. Certainly, the Minister of Enterprise, Trade and Investment has welcomed in the media the intention to give us that. So, that is something that we welcome. However, as regards whether we consider it a valuable part of a new pact, or what have you, I think that it remains for Ministers to make that judgement.

The Chairperson: The specific question is about the €181 million of structural funds and the £50 million of Peace IV funding, which she is saying is on top of what was agreed in Brussels. Are those new moneys?

Mr Sterling: They are saying that that is a share of moneys. That is how they propose to carve up the allocation of structural funds across the UK. They are saying that Northern Ireland will do better than it might otherwise have done. This is an area of expertise of the Department of Finance and Personnel (DFP), but I think I am right in saying that the proposed allocations have been based on the same formulae that were applied in the previous round of structural funding.

The Chairperson: So, in other words, it could be the same money, just repackaged. Is the €181 million and the £50 million of Peace IV funding new, more, additional — call it what you will — or not? Is it extra money, or would we have been getting it anyway?

Mr Sterling: I would prefer that DFP answer that. Whether the amount is more than we might reasonably have expected otherwise is open to question.

The Chairperson: OK. Thanks for that.

Mr A Maginness: Thank you, Mr Sterling, for your submission. The decision at Westminster by the Prime Minister was deeply disappointing and disheartening. There really is no plan B in relation to corporation tax. An awful lot of emphasis was placed on securing the transfer of that power and reducing the rate. That goes to the very heart of the forward thinking of this Administration. Is that correct?

Mr Sterling: Yes.

Mr A Maginness: The likelihood is that we will not get a transfer of that power, even in 2014. If there is a change of Government, it will probably go out the window completely. What is the alternative, Mr Sterling, to that way of thinking?

Mr Sterling: First, our Ministers are very clear that they are not giving up this fight and that they will continue to pursue it vigorously. What if we do not get it? I emphasise that the economic strategy is not dead without it. The economic strategy has been based on our looking around the world at what works elsewhere. We know what works elsewhere: a focus on developing skills and infrastructure, promoting entrepreneurialism, encouraging innovation and R&D — all those good things. We will continue to do those things, and they will have an impact.

The problem is that we felt that lower corporation tax would make a difference in that it would help us to take that extra step and begin to close the prosperity gap that has plagued us for the past number of years. There is not something on the table at the moment that we believe would have the same dramatic effect. However, if we do not get it, we will certainly continue to look for measures that will help to grow the economy. Some of the ideas that you will have heard about in the media, such as enterprise zones, are on the table. The key measures in the enterprise zones that are operating in Great Britain are lower business rates, relaxed planning and the provision of high-speed broadband. All those matters are within our gift. The difference is that there are enhanced capital allowances, and that is certainly something that we want to explore. Our Ministers are looking at that. When we have looked at that issue previously, the view has been that we want to make Northern Ireland an enterprise zone. Attempts to identify one area as opposed to another in the past have led to displacement and difficult political decisions.

Mr A Maginness: Yes; it does not work.

Mr Sterling: Indeed.

Mr A Maginness: South of the border, there has been a terrible financial and economic crisis. There has also been terrible pressure on their corporation tax rate, particularly from the European Union. That was a red-line issue, and the Southern Government held firm and told the French and Germans to stop the pressure because they were not going to make any progress on that issue. They held the line very firmly. That illustrates the importance of corporation tax as a game-changer. They obviously and jealously guarded it, even in the midst of a crisis in which they were under sustained pressure. I know that you are looking at things from afar and are not involved in those negotiations, and so forth. However, do you have any comment on that?

Mr Sterling: No, other than to support the point. When I talk to my counterparts in Dublin, they emphasise the point that you have made. Despite all the huge difficulties they faced, they did not increase their corporation tax by one cent. They changed just about every other fiscal measure and reduced pay and benefits, but they have not touched their corporation tax rate.

Mr A Maginness: I have one final point on regional aid. We have had discussions on that issue. Is the commitment by the Secretary of State on regional aid firm? Have you had any indication from the Department for Business, Innovation and Skills that it is also of that view?

Mr Sterling: The proposal as articulated by the Secretary of State and reported in the media is that we would have it, but that it would be subject to a mid-term review, perhaps some time around 2017. However, you will have heard the Secretary of State say in public that that measure is one among a number that is conditional on the Executive making progress on the shared future agenda.

Mr Agnew: Mr Sterling, thank you for the information that you have given so far. I think that I am right in saying that it was November when we were told that all the negotiating had been done and it was now up to the Government to make a decision. I cannot remember whether it was November, but it was certainly towards the latter end of last year. Presumably, at that point, the various implications and the costs to the block grant would have been agreed. The Finance Minister suggested that for each percentage point we reduced corporation tax, it would cost us £30 million. From your understanding, was that figure speculative or fairly concrete?

Mr Sterling: There was no agreed figure in the final paper that went to the Prime Minister in October. As you may recall, when I briefed you previously, there were three issues: the treatment of second-round effects; the treatment of group relief and profit shifting; and the way in which the block grant was to be adjusted over time. As those things were not agreed, there was no agreement on the price to be paid, to put it bluntly. Since then, the Chancellor announced in the Budget that UK Government intend to drop the rate of corporation tax to 20% over the next two years. We also know that corporation tax revenues are volatile. Taking those two factors together, we have not recalculated what it would cost under our preferred methodology. All that we can say is that the reduction in the headline rate to 20p in the pound will mean that the cost to the block would be reduced. Alongside that, the benefits would reduce because the difference between 12·5% and 20% is obviously less attractive than that between 12·5% and 23%.

Mr Agnew: To some extent, it is a lesser risk for lesser gain.

Mr Sterling: Indeed.

Mr Agnew: We have looked at other options. I remember a paper that was presented to us some time ago — I think it was drafted by the Assembly Research and Information Service, although I cannot really recall — on the various approaches that could be taken to strengthen our economy. Two models were set alongside each other. One was the low tax model that the Republic of Ireland followed. Singapore, I think, was the other country that went down that route. It referred to other countries as well. Finland sticks out in my mind, and I think that the Scandinavian approach in general was different. If I remember correctly, their corporation tax rates were all set around the mid-20s, but they invested much more heavily in skills. Both were seen as strong economies. Obviously, the Republic of Ireland is not a particularly strong economy at the moment. However, those were the two methods that could work; two different approaches.

As has been said, the likelihood of getting corporation tax devolved is low, although you added the caveat that Ministers have not given up on it. From what you have outlined, we are not likely to see corporation tax devolved within the term of this Government. Is that other approach of investing more heavily in skills being looked at as a viable alternative to going down the route of a lower tax rate?

Mr Sterling: The economic strategy as crafted at the minute is very much focused on improving the relevance of skills and their development. There is also a strong focus on encouraging innovation and promoting research and development. Whatever happens, that has to continue because those are the factors that really make a difference. If we had powers to lower corporation tax, we would have to skew or vary the way in which we do some of those things. We would probably have to provide a slightly different skills pipeline to meet the needs of the type of companies that we would seek to attract, but not to the exclusion of all the other skills needs in the existing economy. Similarly, we would have to create a climate wherein companies that engage in R&D and innovation would be supported, and we would have to provide people with the skills to work with them.

Mr Agnew: Finally, very briefly —

The Chairperson: Very briefly, because Mr Sterling is under pressure, and other members want to ask questions.

Mr Agnew: This is probably a point rather than a question. Economics is about choices. When I put the question previously, we had the report in front of us, and I was told that we were investing heavily in skills and looking to reduce tax. However, you must make a choice. If you reduce tax, you have less income, at least in the medium term, and, therefore, less money to spend on skills — unless you are saying that, no matter what, we will spend x amount on skills. However, as we have seen, there are cuts across the board when there are block grant reductions, and that will include investment in skills. Had we had the option of going down the low-tax route, we would have had to make a choice on reducing the amount that we invest in skills. We do not know the figures, so it is hard to speculate about the level of impact.

Mr Flanagan: Thank you for coming, David. It is useful to hear from you again. I seek some clarification as to what this investment package includes. Has it not been finalised yet?

Mr Sterling: The Secretary of State sent a paper to the First Minister and the deputy First Minister that sets out proposals. That was sent on a restricted basis, so I am not really in a position to comment in detail on it at the moment. If you wish, I will ask whether it is possible for the Committee to have a full briefing on the detail of those proposals.

Mr Flanagan: Can you speak about it in broad terms?

Mr Sterling: I could comment on the things that have been reported in the media.

The Chairperson: So do you want to comment on them? *[Laughter.]*

Mr Sterling: You referred to the structural funds issue. I have said that it is open to question whether what is proposed is more than what we would have got otherwise. I referred to the proposal to give us 100% coverage on regional aid guidance, which we welcome. Whether that is conditional on other things, we are very keen to get it. Other proposals have been mooted in the media; for example, enterprise zones, etc. As I said, Ministers are looking at all those things at the moment, but no judgement will be made until there has been a very careful examination of them.

Mr Flanagan: The Executive are dealing with an unemployment crisis. Is there any demand within the Executive to bring forward a specific job creation strategy to try to get every Department working together to create jobs? We have seen some of the proposals that came out of the economy and jobs initiative, but I think that a lot more work needs to be done and that a DETI-led job creation strategy should be the way forward. Is there any demand at all for that within the Executive?

Mr Sterling: All Ministers are united in their desire to tackle the jobs problem. In my view, that is why they worked together so well on the economy and jobs initiative, which brought about quite a long list of new measures only six or eight months after the Programme for Government and the economic strategy had been agreed.

From our perspective, we constantly look to see whether there is anything more that we can do. For example, we have just completed two years of the Programme for Government period, and we, along with Invest NI, will look at what we have achieved in those two years. We will look at what has worked well and whether there are things that we might be able to improve on. It may be that that requires more investment, and we will look at whether a case should be made to the Executive to put more money into particular measures that have worked well over the past couple of years.

Mr Flanagan: You mentioned your engagement with your Southern counterparts. One of the measures that the Dublin Government brought forward is an action plan for jobs, which is not a perfect solution by any means — it is really just a document — but it sets outs what Ministers and

Departments have committed to do specifically to create jobs. An Taoiseach is the man responsible for driving that forward, and every Minister has to come back to him to report on how they are progressing. Are the Executive actively considering something like that?

Mr Sterling: I think that our Ministers would conclude that, together, the Programme for Government and the economic strategy have that requirement. Perhaps there is not reporting in the way in which it happens in Dublin at the moment, but we are all very much focused on the jobs issue. If you wish, I am happy to take back a proposal that we look at some form of reporting.

Mr Flanagan: David, you will appreciate that, as a Member of the Assembly, my primary role is to hold the Executive to account. I find it very difficult to hold the Executive to account on what they are doing to create jobs because we just cannot see what is happening. There are no clear targets for what the Executive plan to do specifically to create jobs. Therefore, I think that a document would enable us as MLAs and the wider public to see much more clearly what the Executive are doing. Nobody is saying that the Executive are not doing an awful lot and that this is not their top priority, but we, as people outside the Executive who are not involved, cannot see that. I think that there needs to be more emphasis on that aspect.

I was amazed when people said that the decision not to reduce corporation tax would cause struggling businesses to go to the wall. A reduction in corporation tax is a reduction in profit. Therefore, in the first instance, it will benefit only profitable companies. It will not directly help companies facing closure, because they are not making a profit. Because of the decision, I think that much more effort needs to be made to help companies that have a good business model, a good operating structure and can make money but are not doing so at the minute for a variety of reasons, perhaps because they are finding it difficult to find new customers or because their operating costs are too high. That is what the emphasis should be on. I am not saying that that is not happening, but I think that much more effort needs to go into driving down costs for businesses.

What impact would lifting the money from the corporation tax reduction pot and putting it into, say, a massive rates reduction scheme have on the profitability of businesses and on their ability to compete and create jobs? Would that be more or less attractive for business than a reduction in corporation tax? Your Department is directly responsible for energy costs and telecoms. Much more should be done in those areas instead of simply saying that if we cut profits for some businesses, it will save everybody, because it will not. I am not saying that we should not pursue the corporation tax issue, but those other matters cannot be simply forgotten about.

The Chairperson: I appreciate, David, that many of those issues are policy matters for the Executive. How many times has the Executive subgroup on economic matters met?

Mr Sterling: I could not tell you off the top of my head. I know that it met most recently two or three weeks ago. We are fully seized of the need to deal with the issues of telecoms and energy prices, particularly energy. I will not go into it now but the last meeting of the economy subcommittee focused on access to finance, which goes to the heart of how we help businesses that are operating at the moment.

The economic advisory group's report on access to finance was considered by the economy subgroup, the recommendations were endorsed, and we are now working on an action plan to bring those into effect. We are doing that alongside the work of DFP. I am not sure whether you have seen that report, but it has been published. It contains a very good analysis of the problems that companies, small and large, particularly small, are facing in accessing debt or equity finance. The report included proposals that we are now looking to implement to try to improve that situation, which is clearly holding back companies that want to invest now.

Mr Flanagan: Can I just make a comment to David?

The Chairperson: Very briefly, Phil, please.

Mr Flanagan: I do not want an answer, so it will be brief. I know that Trevor was listening to what was being said, but the deputy head of public affairs of O2 said that there was no groundswell of demand from its consumers to abolish roaming charges. That is a completely unacceptable statement. I would like to think that DETI will follow up on that and correct that statement.

Mr Sterling: I will look at that.

Mr Dunne: Will you clarify, David, whether the existing economic strategy is based on the existing rate of corporation tax?

Mr Sterling: It is; yes.

Mr Dunne: Are you happy that it is delivering? Are there any amendments to be made to it or a review to take place?

Mr Sterling: To the strategy?

Mr Dunne: Yes, as a result of recent developments.

Mr Sterling: The strategy is kept under constant review. The economy and jobs initiative was an example of it being flexed quickly after it was introduced. I expect that there will be calls from time to time to look at it again. As I say, we are keeping it constantly under review.

The Chairperson: I will bring you back to that for clarity because I am hearing a different emphasis from you than what is in the strategy document. In relation to an assessment of global best practice in economic development, paragraph 1.7 states:

> *"This research leads us to conclude that we will not be able to make the necessary step change in our economy without significant new policy levers. That is why this draft Strategy assumes a successful outcome to the current negotiations with the UK Government on granting the Executive powers to vary the rate of corporation tax."*

Unless I am reading things wrong and cannot interpret language right, I presume that one of those significant policy levers is corporation tax.

Mr Sterling: Yes.

The Chairperson: That comes back to the point that what I am hearing from you is slightly different from what is stated in the document. That begs a question because the document states clearly:

> *"we will not be able to make the necessary step change in our economy without significant new policy levers".*

The only policy lever that I see there is the variation in the rate of corporation tax. That statement is in the document but the context was utterly and completely changed not by a bolt from the blue, but the decision by Mr Cameron. Therefore, in light of so much being hung by the Department and the economic strategy on corporation tax, does that mean that we will not be able to make the necessary step change in our economy because that new policy lever is not there?

Mr Sterling: I think that is consistent with what I was saying earlier. The last sentence in that paragraph reads:

> *"irrespective of the outcome on corporation tax, we are confident that the actions outlined in this draft Strategy will strengthen our competitiveness."*

However, the point that I made earlier and the point that it is made there is that we have identified that corporation tax is the thing that would make the step change.

The Chairperson: So we are not going to make a step change, then?

Mr Sterling: Yes; other things being equal.

The Chairperson: Without the reduction in corporation tax?

Mr Sterling: Yes.

The Chairperson: Sorry, Gordon. I just wanted that clarified. You had another point.

Mr Dunne: David, obviously you work closely with the Executive and Ministers. Are you satisfied that they are still committed to push for this change in corporation tax from what you have seen?

Mr Sterling: Yes; absolutely.

Mr Dunne: Good job. My other point is on small and medium-sized enterprises (SMEs). Last week, accusations were made here that the Department does not like SMEs and is not very supportive of them. What do you say to that?

Mr Sterling: I definitely, absolutely, do not agree with it. I do not have the exact figures at my fingertips, but the support that Invest NI provides is predominantly towards assisting SMEs in the volume of its transactions.

Mr Dunne: We are aware that large manufacturers and processors get substantial funding, but you are saying that quite a significant amount of resources go into SMEs.

Mr Sterling: When my Minister came into the Department five years ago, she was absolutely clear that she wanted more to be done to help SMEs, and, since then, Invest NI's whole strategy has been to, as it describes it, broaden the business base and reach out to more companies. It now has a tailored approach, which means that anyone can come and seek assistance, and they will get help. At the very lowest level, it will be guidance, and, at the highest level, it will be more individually tailored support. Within that, Invest NI is very much focused on encouraging growth in all our companies.

Mrs Overend: I will try not to repeat any comments that were made previously, although I agree with a lot of the sentiments of disappointment with the delay on this decision. What else can be done? To turn the economy around, we need a more ambitious export strategy. Other economies have been able to turn themselves around because their markets have been not just the local GB and ROI markets, but are further afield than that. I would like some additional assurances that we are going into other aspects to increase those exports. Phil mentioned energy costs, and we hear daily from companies that that is one of their major costs and that they sincerely need help to get those costs down so that they can be more competitive.

Mr Sterling: We are very much focused on that, and at the heart of the economic strategy is a desire to encourage more firms to export. We have plenty of world-class examples of the way in which firms have moved into export markets for the first time or expanded into new markets, and that is what we really need to be encouraging people to do. I am conscious that that is a big issue in itself, and I would be very happy to come back and talk more about the approach to exports if the Committee were to find that helpful. I would want to do that alongside Invest NI.

Mrs Overend: In the strategy, there has been some focus on enterprise sectors and although that list seems awfully long, there are certain sectors that we should particularly focus on, for instance STEM industries, agrifood, creative industries, tourism and the social economy. I encourage you to place additional focus on those.

Mr Sterling: We are very focused on agrifood. An agrifood strategy is being developed by the Agri-Food Strategy Board. That is nearing finalisation.

Mrs Overend: What is the timing on that?

Mr Sterling: It is due imminently. The board is working on it.

The Chairperson: Thanks very much, everyone, and thank you for your time, Mr Sterling. That has been very useful for us. There are other issues, and we will probably come back to them. We have touched around the fringes of other matters.

Mr Sterling: I apologise that I could not be more open about the proposals, but that is a constraint on me.

The Chairperson: Thank you for your time.