Northern Ireland Assembly

# COMMITTEE FOR FINANCE AND PERSONNEL

# OFFICIAL REPORT
(Hansard)

## Industrial Derating

6 October 2010

# NORTHERN IRELAND ASSEMBLY

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# FINANCE AND PERSONNEL

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**Members present for all or part of the proceedings:**
Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Simon Hamilton
Mr Daithí McKay
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

**Witnesses:**

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|---|---|---|
| Ms Tracey Ayre | ) | |
| Dr Veronica Holland | ) | Department of Finance and Personnel |
| Mr Andrew McAvoy | ) | |

**The Chairperson (Ms J McCann):**
I welcome Veronica Holland, Andrew McAvoy and Tracey Ayre from the Department's rating policy division. I propose that, if Committee members are content, we move straight to questions.

*Members indicated assent.*

**Dr Veronica Holland (Department of Finance and Personnel):**

I apologise for the fact that Brian is unable to make it today. He is in Brussels on work business.

**Ms Purvis:**

I have some difficulty with industrial derating. It is a universal benefit to business and is not focused or targeted at any specific scheme. The briefing paper states that revising the scheme would run the risk of contravening state aid rules. Would it simply run the risk of contravening those rules or would it actually contravene them?

**Dr Holland:**

Any re-targeting or refocusing of the current scheme would run a significant risk of contravening state aid rules. It is highly likely that it would be deemed to be a new state aid measure, and, on that basis, it is not possible to re-target or refocus a scheme. We appreciate the concerns that are expressed about it being, essentially, a blunt mechanism; one that would be more effective if it were more targeted and focused. However, it is not possible within those constraints to change the nature of the scheme. It is also not possible, legislatively, to make any alterations without new primary legislation, other than those on the level of support that is provided more generally. The more pertinent issue outside of the legislation is the risk of challenge by the EU.

**Ms Purvis:**

It is targeted specifically at manufacturing and not at other businesses.

**Dr Holland:**

It is allowed to continue by virtue of the fact that it was a pre-accession measure. It would not be possible to introduce a measure such as industrial derating today. It is allowed to continue as it was in place at a much earlier date.

**Ms Purvis:**

What would happen if, for example, the Minister sought assurances from the manufacturing industry that, in return for capping the rates at 30%, those who benefit would look at investing in research and development or exports?

**Dr Holland:**

Are you asking whether that would be feasible?

**Ms Purvis:**

Yes.

**Dr Holland:**

There are also difficulties associated with redirecting money.

**Ms Purvis:**

Sorry; you misunderstand me. I am not suggesting that government should redirect the money. We are talking about growing the economy and about industrial derating as a measure for doing so. To grow the economy, we need many things, which include the need to increase exports and to invest in research and development. If the Minister got agreement to cap industrial rates at 30%, could those who benefit from that cap be asked to give the assurance that whatever they save will be invested in their own companies in research and development or in increasing exports?

**Dr Holland:**

I think that the Minister would be keen to see something like that. In practice, the difficulty would be getting those companies to sign up to it, and it is probably unlikely that we could place some form of obligation on them. The Minister and the Department could indicate their keenness to see what you suggest happen, but there may be difficulties in placing any formal obligation on those companies and penalising them were they not to adhere.

**Mr Andrew McAvoy (Department of Finance and Personnel):**

There is no capacity in the primary legislation that would allow us to put a legislative onus on businesses to provide a return on industrial derating.

**Dr Holland:**

It would probably be a goodwill measure. A number of companies would probably commit to it, but others may not. As Andrew said, there is currently nothing that we could do legislatively to oblige them to commit.

**Ms Purvis:**

I am concerned that some businesses see industrial derating as a tax rebate and put it in their back pockets.

**Dr Holland:**

Yes; whereas the money that is saved should be used to improve the economy for the benefit of all.

**Dr Farry:**

The policy decision that the Executive are potentially about to take is to extend the measure to 2014-15. Is that the intention?

**Dr Holland:**

Yes.

**Dr Farry:**

With regard to the decision-making process, is it intended that one Order will cover that entire budgetary period, or will there be annual Orders?

**Dr Holland:**

The intention is for one Order to cover that entire period. I suppose that there would be nothing to stop a future Assembly from taking a decision to revoke that. At this stage, however, the intention is to bring forward one Order next year.

**Dr Farry:**

You referred to Brian being in Brussels. I wonder whether he is trying to negotiate some leeway around this. Given that there is the potential for some radical changes to EU state aid rules by 2013, is there a danger that what happens with the rules will overtake our policy?

**Dr Holland:**

We would be keen to ensure that any changes were taken account of and reflected in what we were doing. At the moment, the intention is that we will bring forward that one piece of legislation to cover that period. Should changes be needed at a future date as a result of Executive decisions or external factors, it would be possible to bring forward a further piece of legislation to amend that.

**Dr Farry:**

Is it accepted that, in economic terms, there is a considerable deadweight to the rebate?

**Dr Holland:**

That was covered in the Economic Research Institute of Northern Ireland (ERINI) report. It is the case that industrial derating is a blunt measure. ERINI indicated, and we support the fact, that if we were starting from scratch, we would not have industrial derating in place. Unfortunately, we are not starting from scratch, and the issue is what we do with the measure that we have in place and what the level of rates liability should be for that sector.

**Dr Farry:**

We also need to take the opportunity cost into account. At what expense do we lock ourselves into doing this for the lifespan of the next budgetary period, bearing in mind that the same amount of resources could be used to support business in other ways with potentially greater benefit? One such example is corporation tax. We are still chasing that and are getting slightly warmer words than was the case.

**Dr Holland:**

Yes; there were warmer indications this morning.

**Dr Farry:**

In the event that we get the ability to lower the rate of corporation tax, we have to decide how we will fund that. Presumably, it could be argued that the money used to facilitate the lower rate of industrial rates could be used more productively to support the lower rate of corporation tax, which, taking on board Dawn's point, would cover a wider range of businesses and also target businesses that are more profitable, thereby facilitating export growth.

Is there a danger that we lock ourselves into something that will restrict our ability to shift resources into more productive ways of supporting business, particularly if the opportunity should arise with corporate tax?

**Dr Holland:**

Again, at the moment, the intention is that, if the 30% is agreed by the Executive, it would apply for that full period. That would not, I suppose, prevent the Executive from deciding at a future date that there should be some change. At this point in time, though, the intention is that that measure would apply for the full period.

There are concerns about revenue foregone, and significant sums are involved. In the figure work quoted, it is the difference between the 30% and 100% that is often referred to, whereas account has to be taken of the fact that we are probably unlikely ever to be talking — certainly not in that time period — of the full £56 million being recovered from the sector. That is one important factor to be taken account of. However, we do appreciate those concerns.

**Dr Farry:**

I return to the Assembly's debate about the green new deal yesterday. Is it fair to say that the biggest competitive disadvantage for manufacturing in Northern Ireland is not so much property prices as energy costs? Surely, the logic is that the state would seek to intervene to help on the energy front rather than the property front, because property is not as big a problem cost-wise as energy?

**Dr Holland:**

Certainly, the ERINI report indicated that electricity and gas costs were a big factor for firms. I am not sure whether that is something to which we would give consideration as such. The ERINI report did flag that that cost was a significant issue for the manufacturing sector and something that should probably be looked at, perhaps not by DFP but by the Executive more widely.

**Dr Farry:**

That highlights the concern that this decision has to be taken in the context of a wider discussion on a whole range of economic issues and not simply confined to a DFP silo.

**Mr McLaughlin:**

The predominant argument in the briefing paper is that we cannot adjust this relief without risking the possibility of EU action. If we abolish it, we cannot reintroduce it. The argument is really a rationale for maintaining the status quo. You made the interesting comment that, if you were considering the whole issue today, you would not opt for this particular relief.

**Dr Holland:**

That is something that ERINI flagged up. However, its view was that this is the second best position. We are not describing what we would do if we were starting from scratch; we are trying to accommodate what we have at present.

**Mr McLaughlin:**

I will tell you what I am exploring. I understand what you say, and we have previously discussed the ERINI report. However, it is adversely affecting our ability to think outside the box. The Minister is not saying that he will introduce this for the upcoming Budget period and then stop it. We will get an argument for the status quo in four years' time, because people are saying that, if we do away with it, we cannot go back to it.

**Dr Holland:**

There is an issue if, say, for argument's sake, liability is increased to 40% or 50%. We cannot decide at a later point to revert or to change that to provide more relief. We are not saying that, in another four years, the Minister will necessarily bring forward a similar argument for retaining the status quo. It will have to be looked at in the economic context of that time and how the manufacturing sector is doing.

**Mr McLaughlin:**

There is an economic context now, and that is really what I am complaining about. My complaint is a fair criticism. We have not been given a rationale that includes the EU state aid consideration and also assesses the benefits of this relief in the current circumstances. No one has bothered to assess that, and I think that that is a glaring omission. What is the benefit of the relief? Is it based on the survivability of small companies? Is a blind eye being turned to the abuse of that relief? There are people who are effectively warehousing but are camouflaging their operations as manufacturing. We know that it is going on. Why are we not getting the full picture and an indication as to whether this relief represents a strategic benefit to economic activity? In the paper, we have only a defensive argument.

**Dr Holland:**

The concern is that, given the economic circumstances of the moment and the difficulties that manufacturing is facing, any significant change in the level of liability that is imposed on the manufacturing sector will have an adverse impact on that sector in respect of the viability of firms, employment, etc.

**Mr McLaughlin:**

So, the reality is that we have a manufacturing base in which significant parts or some sections are not viable unless we give them 70% rates relief?

**Dr Holland:**

It is not necessarily the case that significant numbers of manufacturing companies are not viable. The issue is that, if the level of liability on some of those manufacturing companies were to significantly increase, it could potentially have an adverse impact on them and on employment, given the economic circumstances at this time.

**Mr McLaughlin:**

We all understand why the lobby is vociferous. As politicians, we are not insensitive to that. However, the underlying issue with which we have to deal is that our private sector is underperforming and is uncompetitive, in many cases. We do not achieve the same productivity as other, similar regions, and yet we are providing relief rather than encouragement.

**Dr Holland:**

There is a desire that, along with measures such as industrial derating, steps are taken to encourage the private sector and to boost productivity.  That is not in our remit in respect of a rating measure.  Unfortunately, we cannot alter the scope of this scheme.

**Mr McLaughlin:**

You have responded, and I do not want to get into a debate about it, but I made a point about assessing the wider rationale for the continuation of this particular measure.  Could the Committee have that rationale?  I would like to see it in writing.

**Dr Holland:**

That is fine.

**Mr McNarry:**

Growing the economy, as far as I am concerned, is about keeping businesses in business and making them profitable, but I do not subscribe to keeping people in business when they cannot pay their way.  I am concerned about the way in which the Department is handling this matter.  It is not quite drip-feeding that we are getting, but we are close to being asked to give our opinion or to take decisions that lead to giving an opinion, on the hoof, with no insight into priorities coming from our Department or any other Department in the face of the current and looming reductions. I find that difficult, because, although I am sympathetic, I am being asked to pluck something out now that will go to the Executive.  Our Committee will have said whatever it is going to say, but what is coming next week or the week after?  We are not seeing an overall picture.  I am concerned about how we are handling this matter, and it is difficult for me.

The briefing says:

> "In not rating … £31m - £32m regional rates revenue would be foregone annually over the next four years (with 30% liability)".

It then says:

> "such a figure makes a somewhat unrealistic assumption that all of our manufacturing firms can afford to pay full rates".

What does that mean?

**Dr Holland:**

It is meant in the sense of moving immediately or very sharply from a 30% situation to a 100% situation.  We do not want to imply that significant numbers in the manufacturing sector are dependent on rates relief for continued viability. It is more to do with the fact that were there to be a significant shift in the policy over a short time frame —

**Mr McNarry:**

I am glad that you said that. I know that it is only a briefing paper, but instead of saying “all of our manufacturing firms”, why do you not tell us how many businesses cannot afford to pay full rates and what the consequences of that are? That would make more sense; we could understand that. The briefing goes on:

> “The collectable figure is likely to be considerably less but, to be candid, it is ‘anybody’s guess’”.

I wish that I could say to someone in business or to a constituent that it is “anybody’s guess” what is going to happen here.

**Dr Holland:**

Unfortunately, we do not have figures to hand to show us, if we were to jump immediately from 30% to 100%, what the impact would be or how many companies could potentially go under as a result of that. I apologise if the briefing is somewhat misleading in that regard.

**Mr McNarry:**

It is not misleading; you have explained it. It tells me that, really, we do not have a clue. If you have figures, we need them. I cannot accept something that says that it is anybody’s guess what the collectable figure might be. We are not in the position of guessing at a time when the Minister is saying that he would like to proceed with this course of action. The briefing also tells us:

> “The Minister intends to make reference to retaining industrial rates liability at 30%”.

He intends to do that at tomorrow’s Executive meeting. I sometimes wonder, Chairperson, what it is that we are being asked. Are we being asked to give the Minister some sort of cover?

**Dr Holland:**

No. I think that the Minister is keen to take on board the Committee’s views before that paper is discussed.

**Mr McNarry:**

I suspect that perhaps he is keen to know them rather than to take them on board.

Finally, what is the debt on collection of industrial rates?

**Dr Holland:**

Sorry; what do you mean by the debt on collection?

**Mr McNarry:**

What are we owed? What are you not collecting?

**Dr Holland:**

I am sorry; I do not have a figure available for the arrears. We will find that out for the Committee.

**Mr McNarry:**

You say that you will find that out for me, but that is a bit too late. When the Minister is asking what he is asking — unless somebody can tell me that I have missed something — it is very important that I know the existing rates arrears. What are we not bringing in? What is the problem? Is it a major problem? Can you tell me that? Is it significant?

**Dr Holland:**

Do you mean that you want to know how much of the 30% that is currently being paid is not being collected in revenue? Or, do you mean the sum in relation to the 70% relief?

**Mr McNarry:**

I am asking how much revenue you would expect to bring in from rates.

**Dr Holland:**

Do you mean if it were to be charged at 100%?

**Mr McNarry:**

No, as it is now.

**Dr Holland:**

As it is now, it is about £20 million to £25 million for 30% liability.

**Mr McNarry:**

Are you telling me that, as it is now, we would expect to draw in £25 million?

**Dr Holland:**

That would include the regional and the district rate elements. On its own, the regional rate element would be around —

**Mr McNarry:**

So, the simple question is: what are we bringing in?

**Dr Holland:**

Unfortunately, I do not have access to figures on what is collected from that sector, but we will find that information out and come back to the Committee with it.

**Mr McNarry:**

Well, without that information, I cannot reach an opinion on this.

**Dr Holland:**

I apologise. I did not appreciate that the Committee would be interested in arrears levels for the manufacturing sector.

**The Chairperson:**

Will you get that information for the Committee, Veronica?

**Dr Holland:**

Yes.

**Mr O'Loan:**

My questions are in a similar vein to those of other members, particularly Mitchel. Is manufacturing so distinctive that it merits a 70% discount when other business does not get any? I do not think that the information is there, in strong evidential terms, to argue that case. Nobody would advise a jump from a 70% discount to a zero discount straight away. Therefore, if that is ever to be changed, it would have to be done in stages, with pauses to reflect on the consequences of change, one stage at a time.

ERINI argued that the discount should reduce from 70% to 50%. If we look at the figures for that, we see that the loss in regional rates of that not happening would be £9 million. However, compensation is paid to district councils — the figure quoted is £25 million. May I take it that that would apply if we went to 100%?

**Dr Holland:**
That would be to 100%. The district rate element is probably in the region of £7 million to £8 million.

**Mr O'Loan:**
Yes, that is the figure: two sevenths of the £25 million would be about £7 million. Therefore, the total cost in not going to the ERINI figure of a 50% discount would be £9 million plus £7 million, which is £16 million. That is what we are currently losing. If we changed to the 50% discount, that would become the gain to the Executive.

My immediate question then is: what would be the loss? What would be the loss to the manufacturing sector? How many jobs would we lose? Is it an extra piece of pain that firms could not take? We do not get any information at all on that side of the equation, which leaves the Committee in a difficult situation. We need more information on that, difficult as it may be to find.

You said that you cannot vary the scheme itself. However, if a move were to be made to reduce the discount, could you bank the proceeds and use them to assist manufacturing in a much more dedicated fashion? Is anything such as that conceivable?

**Dr Holland:**

Do you mean in terms of the additional revenue that the Executive would bring in from increasing liability to, for example, 50%?

**Mr O'Loan:**

Yes.

**Dr Holland:**

My understanding is that that would probably give rise to similar state aid issues. Again, there would be difficulties in respect of targeting a particular sector. I consider that it would be deemed to be, in effect, a new state aid measure.

**Mr O'Loan:**

You talk about the difficulties of targeting a particular sector. However, we do have an economic policy to some degree. Invest Northern Ireland has strategies that are not broad-brush but state that they will do particular things in particular sectors. What is there to prevent us saying that we have extra money, which we will use to advance certain aspects of manufacturing, whether that be R&D, training, assisting exporting or whatever?

**Dr Holland:**

We would run into difficulty if specific moneys were redirected and awarded to companies as a form of blanket relief for that sector or parts of it.

**Mr O'Loan:**

It may not be impossible to design a scheme in which the money is used in a way that the manufacturing sector sees as conferring some benefit on it.

**Dr Holland:**

That could be looked at. However, without looking at the detail, my sense is that state aid issues and difficulties would be likely to arise.

**Mr O'Loan:**

David's question on arrears is valid, but only if comparisons are made through the information that comes back. If information came back to the effect that the manufacturing sector is having a lot more difficulty paying its rates than other businesses, as exemplified by its level of arrears, that would tell us something. It would be useful to have that information.

**Mr Hamilton:**

Some members have performed their well-established roles as sceptics of the policy, so it is probably time for me to step forward to play my role as cheerleader. I accept the point that others have made that, if a policy were being designed to help the sector, this would not be the starting point. However, I imagine that the consequences for the sector would be quite serious if the policy was not retained. We capped it at 30% a number of years ago on the basis of the economic climate at that time.

**Dr Holland:**

The situation is worse now than it was at that point.

**Mr Hamilton:**

It is arguably much more perilous now. I take the point that Mitchel and Declan made about having substantive evidence or commentary. I would be happy to see the evidence to back up the argument to retain the policy, and I share the views of others that we should seek that evidence. It is not really a question, but I want to register my view that, imperfect as the policy mechanism is, it is still required at this level at this time. The Committee would benefit from seeing commentary and evidence that backs up the perilous position that manufacturing is in. I believe that that evidence exists and can be produced, but it is not here at the minute. If that evidence is what it takes to persuade some members of the merits of retaining the policy, it is worthwhile to seek it.

**The Chairperson:**

It seems to me that we need more evidence. Most Committee members have said that we need access to evidence of the benefits and the wider rationale of the policy. We need to know the level of outstanding debt or arrears and what the loss to businesses would be if the policy were removed. It would be helpful for us to have that information to enable us to have an informed opinion.

**Dr Holland:**

We will get that to you as soon as we can.

**The Chairperson:**

Does the current system apply to all forms of manufacturing or just the more traditional forms?

**Dr Holland:**

It is directed at mines, quarries and what would be deemed as factories. Essentially, it applies anywhere where manual labour is involved in the production or alteration of particular goods.

**The Chairperson:**

Does it apply to more high-tech manufacturing, such as the production of component parts of computers?

**Dr Holland:**

My understanding is that it does not. The policy is focused largely on manual labour; the software side of manufacturing is not eligible for industrial derating.

**Mr McLaughlin:**

It is not really an element of, say, the foreign direct investment (FDI) strategy or of trying to develop the manufacturing base of the economy. It deals with an existing component.

**Dr Holland:**

It is unfortunate in a sense that the focus is on dealing with where we are, as opposed to us being able to do anything different.

**Mr O'Loan:**

Several sectors were named. Given that food manufacturing is such a big part of our economy, is food processing, whether on farms or in more commercial environments, captured?

**Mr Hamilton:**

It is if it is commercial.

**Dr Holland:**

I am not sure, but we will check that out.

**The Chairperson:**

In the information that you provide to the Committee, will you tell us what is and is not included under the policy?  Thank you for coming along, and we await that information.

**Dr Holland:**

We will get it to you as soon as we can.