



Department for
**Employment
and Learning**
www.delni.gov.uk

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Dear Jim,

At their meeting on 20 January 2015, the Committee for Enterprise, Trade and Investment agreed to the terms of reference for the inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax. The Committee also agreed to write to the Department for Employment and Learning to seek their views on the key areas which the inquiry is focusing on.

Please see attached in the Annex the Department's considerations on these issues.

Yours sincerely,

FIONA STANLEY
Departmental Assembly Liaison Officer

1. *What are the key economic drivers (other than low corporation tax) that the Executive can influence in order to maximise the potential of Northern Ireland to attract inward investment, grow the economy and create jobs?*

It is clear that a lower level of corporation tax will not be successful within a vacuum. We need to see continued, and indeed increased, investment in the other key economic drivers. This entails investment in research and innovation, investment in infrastructure, and most crucially investment in skills.

Such powers to lower the Corporation Tax rate in Northern Ireland has the potential to transform the local economy, in particular, increasing growth, productivity and exports.

From the list of drivers presented within the Appendix 1 of the Inquiry, the Department would consider the following to be key: Higher and Further Education; Innovation and R&D Environment; Labour Relations; and Skills and Education.

2. *Which of these key economic drivers are considered priorities for the manufacturing sector?*

Advanced manufacturing and engineering was identified as one of a number of priority economic sectors vital to rebalancing the economy and providing economically relevant skills to the workforce and within this, Skills and Education are important drivers.

A Ministerial Working Group was established in 2012 to identify and address the skills challenges facing this sector. The Group is a short term intervention which brings together government, academia and local employers to identify skills needs specific to the sector.

The Group commissioned research to identify current and future skills issues across the industry. The findings of the research report were used to inform

the development of a two year Action Plan to set the strategic direction for the sector which launched in April 2014.

The Action Plan aims to help enhance the quality of the workforce, maximise employment opportunities and give the local Advanced Manufacturing and Engineering Services sector a competitive edge in the global marketplace. A number of key programmes have been put in place to promote the sector, increase its attractiveness and ensure employees and prospective employees have the right skills.

Alongside the lowering of corporation tax another factor driving demand in this sector is the growth in air travel and the core competencies which exist in Northern Ireland are creating expansion opportunities for the local aerospace industry. Additionally the growing demand for sustainable energy and environmentally-friendly products and processes will also affect the skill requirements of the advanced manufacturing and engineering workforce.

The Department has a strategy in place to address the skills issues of the engineering sector and is working in partnership with local employers and Academia to take this strategy forward.

3. Which of these key economic drivers are considered priorities for the services sector?

It is envisaged that under a lower Corporation Tax environment there will be a significant expansion in the requirement for software and IT professional and across the Business services sector more generally and therefore it is key that the appropriate skills pipeline is resourced appropriately to ensure needs of FDI employers are met.

4. *How well is each of the priority economic drivers currently developed in Northern Ireland to support inward investment, economic growth and job creation?*

Already much work has been conducted to develop our local skills base, in particular, the rebalancing towards higher level skills. However, Northern Ireland still suffers from a legacy of too many people with low or no skills and qualifications. This is unsustainable as we strive to create a strong economic future. We know that we have to deliver even more high level skills, in particular in the STEM subjects (Science, Technology, Engineering and Mathematics) if we are to be globally competitive.

Skills are already central to our inward investment narrative. The Northern Ireland colleges and universities are highly regarded internationally, and noted for their responsiveness to the needs of the local economy. The Department for Employment and Learning's Assured Skills Programme builds upon this solid base through offering tailored programmes to address the very specific requirements of investors, through for example an ever growing range of conversion Academies.

5. *What actions need to be taken, and by whom, to address any gaps in the priority economic drivers?*

In the context of a lower rate of corporation tax, the demand for higher level skills will intensify further. In June 2012 DEL published a piece of research on the potential impact of a lower corporation tax on the demand for skills, entitled *Preparing for a Lower Corporation Tax Environment*. This was in order to more directly prepare for a new scenario.

The resulting research report¹ highlighted that a reduction in Northern Ireland's corporation tax rate to 12.5% could increase the jobs that would otherwise be produced locally. However, the research emphasised that a change in corporation tax may not transform the economy in isolation of

¹ <http://www.delni.gov.uk/lower-corporation-tax-environment.pdf>

investment in and a coherent focus around the key economic drivers – particularly skills and employability.

The report sets out the importance of developing our skills base and the employability of our people. It highlights in particular the importance of strong skills in STEM; management and leadership; and literacy, numeracy and employability skills if we are to capture the full benefits of a lower corporation tax rate. Crucially, the report concludes that the Department must react quickly as it seeks to meet the skill needs of employers in a lower corporation tax rate environment.

The report indicates that under a lower corporation tax rate:

- increased demand would be most pronounced for employment in the software and IT sector;
- there would be a substantial increase in STEM professionals by 2030 compared with today;
- a significant increase in higher level skills is also estimated particularly in the areas of computer science, creative arts & design, managerial and professional roles and biological and physical sciences;
- the additional FDI jobs that a lower tax would attract may require strong management, leadership and professional skills; and
- a further drive may be required on up-skilling the low skilled to be 'work ready'.

These are issues that the Department for Employment and Learning is already working to address and they are central to its overarching 'Success through Skills – Transforming Futures' strategy. However, although the Department is already on the right path, what the research shows is that it will need to go even further to address the quantum of skills required under a low corporation tax rate scenario.

Therefore, we must ensure we keep pace with the supply of skills. That will require additional support from the Executive in terms of resourcing appropriately the skills pipeline in the right areas.

