

# NI CHAMBER RESPONSE TO ETI COMMITTEE INQUIRY ECONOMIC GROWTH AND JOB CREATION IN A REDUCED CORPORATION TAX ENVIRONMENT

April 2015





# NI CHAMBER BOARD & COUNCIL

Northern Ireland Chamber of Commerce and Industry (NI Chamber) is the network for business in Northern Ireland which enables members to grow both locally and internationally and drive the development of the economy.

NI Chamber is the largest independent business network in the region and one of the fastest growing in the British Chambers of Commerce network. Formed in 1783, we have represented the interests of local business and commerce across Northern Ireland for over 230 years. We now have a large and active membership of over 1,200 businesses from sole traders to the largest multinationals (across every area of business) totalling more than 100,000 employees.

NI Chamber is an award winning, quality assured, customer focused organisation and has achieved the following accreditations and awards:

#### **ACCREDITATIONS**

- British Chambers of Commerce Accreditation (achieved 2010 and retained annually)
- Investors in People Silver Award (achieved 2012, original standard achieved 2009)
- Customer Service Excellence (achieved 2011)
- ISO 9001: 2008 Quality Management (achieved 2011, retained 2012 and 2013)

#### **AWARDS**

- CIM Marketing Excellence Award UK and Ireland 2011 Best Traditional Sales Campaign
- CIM Marketing Excellence Award UK 2012 Best Sales and Marketing Campaign Not Profit
- British Chamber of Commerce Chamber of the Year 2012-13
- PR Golden Hedgehog Award 2014

NI Chamber supports businesses through networking and events; growth initiatives and export support; articulating the views of business to Government; sharing best practice and knowledge; the provision of promotional opportunities via the NI Chamber website, directory and Ambition magazine.

As an accredited member of British Chambers of Commerce, we are part of a wider network representing the interests of 104,000 business members which collectively employ almost five million people. This network also links us into the world wide Chamber network in support of our export development activity. NI Chamber also works on an all island basis with the Chamber network in Republic of Ireland to develop all island trade.

#### **PRESIDENT**

Mr Kevin Kingston, Danske Bank

#### **VICE-PRESIDENT**

Mr Stephen McCully, Power NI

#### **CHIEF EXECUTIVE**

Ms Ann McGregor

#### **BOARD**

Mr Nick Coburn, Ulster Carpets

Ms Ellvena Graham, Ulster Bank

Mr Kevin Kingston, Danske Bank

Mr Francis Martin, BDO

Ms Janet McCollum, Moy Park

Mr John Healy, Citi

Mr Patrick Hurst

Mr Stephen McCully, Power NI

Ms Ann McGregor, NI Chamber

Mr Gareth McWilliams, BT

Mr Mark Nodder, The Wrights Group

#### COUNCIL

Mr Philip Bain, ShredBank

Mr Samuel Brown, Investec Wealth and Investment

Mr Rick Butterworth, Diamond Recruitment

Mr Michael Clarke, Deloitte

Mr Mark Cosgrove, Redhead International

Mr Gary Crawford, Tech Europe

Prof Heather Farley, Ulster University Business School

Prof Tony Gallagher, Queen's University

Ms Ellvena Graham, Ulster Bank

Mr Richard Gray, Carson McDowell

Mr John Haran, HMC Global

Mr Ian Henry, Henry Brothers

Mr Uel Hoey, Belfast International Airport

Mr Patrick Hurst

Ms Jenny Irwin, RSM McClure Watters

Mr Michael Kennedy, Royal Mail

Mr Kevin Kingston, Danske Bank

Mr Patrick Leggett, Xperience

Mr Alan Lowry, Environmental Street Furniture

Mr David Manning, SSE Airtricity

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Mr Paul McBride, Pinsent Masons

Mr David McCartney, Bullivant Taranto

Ms Janet McCollum, Moy Park

Mr Stephen McCully, Power NI

Ms Anne Marie McGoldrick, MCG Services

Mr Michael McKeown, Crash Services Ltd

Mr Gareth McWilliams, BT

Mr Mark Nodder, The Wrights Group

Mr Fred Smyth, Bank of Ireland UK

Mr Peter Stafford, A&L Goodbody

Mr John Toner, Williams Industrial Services

Ms Karen Yates, Zing Design & Print



As President of NI Chamber, I have worked with my colleagues in business to support our members to overcome the challenges of the recent downturn. We sought to build business confidence through our

Growing Something Brilliant Campaign and provide practical support to assist businesses to grow and export. Thankfully, global growth has returned to its pre-recession trend, although the drivers of that growth continue to change. The UK - although still struggling under a massive deficit and facing further years of austerity - is nonetheless now among the best performing of the developed countries.

Here in Northern Ireland, there are clear signs of recovery too, with growth of comfortably over two percent expected in 2015. Invest NI has delivered a record year of job promotions; expenditure on Research and Development is up, the improving economy in Ireland is having a positive impact on Northern Ireland, and the number of people in employment is growing at close to the record levels experienced in the decade to 2008. And while that employment growth has not yet been accompanied by parallel improvements in productivity, wages and living standards, we do have recovery. This is the first crucial step on a much more positive road.

However there is more to do to ensure that we have a Northern Ireland built for growth where business policies are fit for the long term; local business communities are empowered; the machinery of national and local government works with and for business. The business community has a clear and vital role to play in that process, working with Government to focus attention on creating the best possible environment for business growth in order to rebalance the economy.

NI Chamber welcomes the devolution of corporation tax and welcomes the opportunity to contribute the views of our members to the Enterprise, Trade and Investment Committee's inquiry into economic growth and job creation in a reduced corporation tax environment.

### NI CHAMBER ENGAGEMENT WITH BUSINESS

The evidence presented comes from extensive research carried out by NI Chamber with:

- 1,200 NI Chamber members employing in excess of 100,000 people
- Focus groups with the NI Chamber Council of 35 businesses representing a cross section of members which leads on policy
- The NI Chamber's Quarterly Economic Survey (QES) which engages with over 300 local businesses each quarter
- Ongoing interaction with circa 6,000 business representatives that attend over 60 events annually
- Evidence gathered during specific campaigns including the Growing Something Brilliant Campaign to inspire business growth and areas of strong policy focus for the Chamber including external/export trade.

NI Chamber members are committed to the growth of the private sector and the development of the Northern Ireland economy. We believe that Government should create the conditions to foster business growth and businesses will in turn take the risks to establish and grow - creating much needed employment for job seekers of all ages and from all communities in both urban and rural areas.

NI Chamber believes that we need:

- A stable political environment which will inspire business confidence to invest.
- Clarity in relation to a reduced level of corporation tax it is particularly important that a date and rate is set soon.
- In addition, focus on the following actions will achieve real growth and prosperity and result in benefits for everyone in Northern Ireland.

ACTION 1 - Develop the talents and ambitions of our citizens - because preparing young people for the world of work, investing in the skills of those already at work, and ensuring that we have the skills required to grow the economy, are essential to Northern Ireland's competitiveness.

**ACTION 2 - Business competitiveness** 

- because costs and taxes are a major challenge to all businesses, in particular manufacturers. Reducing costs and the amount of tax firms pay will boost businesses competitiveness, investment and jobs.

ACTION 3 - Support indigenous business growth in order to grow Northern Ireland's global trade potential

- because building international networks, investing in our export skills base and removing barriers to trade will support Northern Ireland businesses to compete on a global stage.

ACTION 4 - Rebuild Northern Ireland's business infrastructure - because a world-class economy needs world-class infrastructure to support economic growth, and businesses need certainty that crucial improvements will be delivered.

ACTION 5 - Support long-term business investment - because encouraging and supporting investment in dynamic businesses, including access to finance, is critical in driving the rebalancing of the Northern Ireland economy that is so badly needed to improve productivity and encourage competitiveness.



## Action 1 - Develop the talents and ambitions of our citizens

Preparing young people for the world of work, investing in the skills of those already at work, and ensuring that we have the skills required to grow the economy, are essential to Northern Ireland's competitiveness.

#### Situation

Businesses can only perform as well as the people who start, run and work in them. Skills shortages is consistently raised as one of the biggest issues facing our members.

- Northern Ireland is ranked 20th out of 26 countries in skills ranking (behind the UK and Ireland) and this has remained unchanged over the last decade.
- The supply of skills in Northern Ireland is not well aligned to labour market needs; there is a brain drain factor and recruiting international workers can be a challenge because of issues with visas.
- Many young people are inadequately equipped with the soft skills and knowledge needed to make a smooth transition from education to the workplace.
- There is a shortage of graduate level skills across a number of key areas including management, STEM and ICT.
- Northern Ireland has a higher share
   of the working age population with
   low qualifications and low numeracy/
   literacy skills and has the largest share of
   working age population in the UK with
   no qualifications.
- Public sector realignment will lead to additional training requirements for those seeking redeployment.
- The reduction in corporation tax will lead to significant additional skills requirements.

(Source: Northern Ireland Skills Base: International Benchmarking Report Card, March 2013 Oxford Economics on behalf of DEL).

#### **Recommendations**

#### **Short Term**

- Ensure that the investment in skills is prioritised and that there is sufficient budget allocated to support the development of STEM programmes, international business expertise and the expansion of the Assured Skills programme.
- Monitor the results of the NI Skills Barometer (Ulster University NICEP), setting targets and investing in a Northern Ireland wide reskilling programme.
- Implement the Northern Ireland Apprenticeship Strategy designed to remove barriers to businesses particularly SMEs taking on apprentices and ensure seamless progress for apprentices.
- Promote enterprise modules for all higher and further education students so that they have the opportunity to build up their knowledge of business, better preparing them for work or to set up their own firms.

- Implement the actions identified in the Brian Ambrose Careers Review 2014. Delivery of careers advice and work experience will develop equal opportunities for all, improve standards and deliver results for students and business.
- Guarantee a 'business governor' in every school to increase business engagement in education and promoting greater understanding of career opportunities. Initiatives such as Young Enterprise should also be available in every school.
- Provide additional financial incentives, such as tax credits for small and medium-sized businesses, that make a significant investment in training which contributes to business growth and exporting.

# Action 2 - Business competitiveness

Costs and taxes are a major challenge to all businesses, particularly manufacturers. Reducing costs and the amount of tax firms pay will boost businesses competitiveness, investment and jobs.

#### **Situation**

An efficient and low cost business environment attracts Foreign Direct Investment (FDI) and makes it easier for local businesses to compete both nationally and internationally however:

- Northern Ireland ranks 42nd out of 145 countries in terms of competitiveness behind the UK (8th) and Ireland (27th).
- Tax rates are one of the most problematic aspects of doing business in Northern Ireland (they rank 3rd here but only 6th in Rol).
- Northern Ireland is competing for FDI with the ROI which has a corporate tax rate of 12.5%
- Business rates are considered by members as excessive (QES).
- Only 1 'pilot' Enterprise Zone in Northern Ireland out of 24 across the UK.
- For the most intensive users, energy costs are some of the highest in Europe. Whilst cost is an issue in the short term, security of supply is critical in the long term, particularly for inward investment.
- Members believe the cost of complying with regulation has increased, specifically the extent and complexity of regulation around employment law (QES).

(Sources: Competitiveness Index for Northern Ireland - Economic Advisory Group (EAG), June 2013; NI Electricity Prices: Data & Comparisons - Utility Regulator NI, March 2013).

#### **Recommendations**

#### **Short Term**

- Set a date and a rate for the reduction of corporation tax.
- Explore actions which reduce electricity prices for large users and to target alignment with the EU average.
- Address the security of supply issue by strengthening interconnection of the electricity grid with the UK and Ireland, and enhancing our ability to import and export electricity to best effect for consumers in NI.
- Freeze business rates for all companies until 2017. Manufacturing rates should be held at 30% beyond 2015 to ensure that our manufacturing businesses can remain competitive.
- Identify a high level, NI based better regulation business champion, as recommended by the DETI Review of Red Tape, to continue to highlight the challenges faced by business.

- Develop a strategic investment plan for future grid infrastructure investment by NIE to give priority for business demand growth.
- Work with Brussels and Westminster to eliminate constant changes in the regulation rulebook. Many firms, particularly smaller businesses, find it difficult to cope with the volume of regulatory changes stemming from both Whitehall and Brussels.
- Consider the implementation of further enterprise zones across the region that comprises a fast track planning process and 100% relief on regional and domestic rates for the first five years of any new-start-up business, and for a three-year period for companies with expansion plans.



# Action 3 - Support indigenous business growth in order to grow Northern Ireland's global trade potential

Building international networks, investing in our export skills base and removing barriers to trade will support Northern Ireland businesses to compete on a global stage.

#### Situation

A strong private sector and export trade is key to sustainable growth however:

- Northern Ireland's export base is very small with less than 1,600 goods exporters.
- And heavily dependent on a few large firms - 10 manufacturers account for 50% of exports.
- With significant fallout from the recession:
  - Northern Ireland lost 1/5th of the value of its good's exports between 2008 and 2009 (UK lost 10%).
  - Goods exports have fallen again in 2014 (-1%) and Northern Ireland is the only UK administration not to recover its 'pre-recession' export
  - Number of Northern Ireland goods exporters continues to fall - down from 1,700 in 2009.
  - Recent Northern Ireland manufacturing exports recovery entirely driven by large firms (250+).

(Sources: Regional Trade Statistics - HMRC, March 2015 and NI Manufacturing Sales & Exports Statistics, December 2014).

#### Recommendations

#### **Short Term**

- Provide an easy to navigate and highly visible continuum of support for the business start, growth and export life cycle, particularly for potential/new exporters to include export finance.
- Increase SME participation in procurement, making it easier for consortia to compete for large public sector contracts by removing the substantial hurdles small businesses face when coming together to compete with larger providers.
- Ensure that the Export Strategy/Action
  Plan currently being developed for
  Northern Ireland puts business (not
  support organisations) at the centre
  of actions agreed and results in a
  streamlined, visible and effective service.

#### **Longer Term**

- Increase the budget for export support to ensure that businesses build international capabilities and overcome barriers to entering new markets leading to increased levels of export.
- Ensure that Northern Ireland businesses have easy access and affordable air connections to international markets.

#### PRIORITIES FOR IMPROVEMENT - EXTERNAL/EXPORT TRADE

#### **Potential Exporters**

- Finding/understanding overseas customers
- 2. Scale business is too small
- 3. Finance requirements
- 4. Having the right management/staff skill

#### **Existing Exporters**

- 1. Inadequate market intelligence
- 2. Developing/maintaining necessary skills to export
- 3. Finance requirements
- 4. Export costs including logistics



#### Action 4 - Rebuild Northern Ireland's business infrastructure

A world-class economy needs world-class infrastructure to support economic growth, and businesses need certainty that crucial improvements will be delivered.

#### **Situation**

Businesses rely on transport networks to move goods and people; on energy infrastructure to keep production lines and technology running; on telecoms to deliver services, and to connect with customers and suppliers. Failure to invest in capacity and maintenance is hampering business growth and costing jobs.

- Infrastructure is one of biggest issues raised by NI Chamber members.
- Northern Ireland's infrastructure is suboptimal (roads, rail, ports, airports, digital).
- Lack of delivery of key projects e.g. North South Interconnector, A5.
- · Road networks are not well maintained.
- Some urban areas including Belfast with insufficient capacity (transport networks, Grade A office space).
- Underutilisation of assets including ports, waste etc.

What one key action do you think the NI Executive should take to improve infrastructure in Northern Ireland?



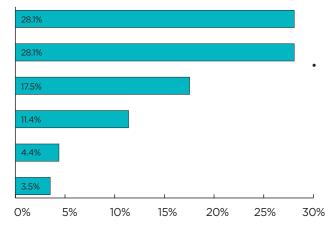
Reduce energy costs/ improve regulatory framework

More strategic/effective NI Executive action

Improved broadband connection/coverage

Reduced corporation tax

Reduced Business Rates



(Source: NI Chamber QES, Q4 2014).

#### Recommendations

#### **Short Term**

- Address the current demand for Grade A office and industrial space which is likely to intensify as a result of the devolution of corporation tax powers.
- Complete the planned improvements in the strategic road network with a particular focus on addressing bottlenecks, such as the York Street interchange.
- Invest in public transport services to enhance connectivity and mobility. The rail link to Dublin requires improvement.
- Ensure that key infrastructure projects of significant economic benefit are identified and fast tracked for early completion.
- Support further roll out of broadband connectivity across Northern Ireland to increase e-business activity and improve access to high-speed broadband in rural areas.

- Consider a more targeted intervention to increase aviation capacity in Northern Ireland including a programme to stimulate route development to business destinations in line with the findings from the NICEP research on APD.
- Ensure our businesses have access to world-class digital infrastructure by taking the lead in the development of 5G technology - putting economic ambition and aspiration at the heart of plans for digital infrastructure.
- Look for innovative funding techniques to fund investment as has been the case elsewhere e.g. Scottish Futures Trust (SFT).



# Action 5 - Support long-term business investment

Encouraging and supporting investment in dynamic businesses, including access to finance, is critical in driving the rebalancing of the Northern Ireland economy that is so badly needed to improve productivity and encourage competitiveness.

#### Situation

Investment is key to improving productivity and increasing the competitiveness of the Northern Ireland economy but the fallout from the recession has had a significant impact on business investment in Northern Ireland – particularly those with property debt overhang.

- Our members highlighted that 2014 was a particularly challenging year for investment (QES).
- Our members view the Northern Ireland planning process as slow and restrictive. (QES)
- Businesses here are still paying down debt.
- Uncertainty remains a key barrier as the Northern Ireland economy has been slower to recover.
- R & D investment tends to be concentrated in a few large firms e.g.
   10 companies account for 60% of R&D investment in Northern Ireland.

(Sources: Banking Activity in Northern Ireland - British Bankers Association (BBA), Q4 2014; Northern Ireland Research and Development (R&D) Statistics - DETINI, 2013).

#### **Recommendations**

#### **Short Term**

- Create the right financial environment to ensure ease of access to the most appropriate loan and equity products to help businesses expand and grow by encouraging the development of a stronger local banking voice; building the capacity of business advisors and smaller accountancy firms to provide sectoral advice; improving business financial literacy – both for short and long term funding requirements and improving business understanding of why and how to invest in their business.
- Improve awareness of and access to alternative sources of finance other than debt finance e.g. private equity market as well as sources including crowdfunding, peer to peer lending etc.
- Create the right planning environment to facilitate business development and growth efficiently and effectively - set a 10 week decision making process for business applications.

- Establish an 'education forum' for businesses to guide them on the benefits of and approaches to investing in their business.
- 'Northern Ireland proof' all UK finance interventions to ensure that they are 'fit for purpose' here.
- Ensure that any new loan or guarantee instruments that would enable businesses to access new funding from a bank, or elsewhere is promoted and allows the business to pass the affordability test for new bank funding.
- Specifically educate businesses on how to manage late payment and bad debt. Measures such as a kitemark for prompt payers, alongside moves to encourage local government to use e-invoicing, could mean fewer businesses struggling with cash flow problems.
- Pro-actively engage with businesses and accountants to raise awareness around R&D Tax Credits.

































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