

## **ETI Committee Inquiry – The Potential for Economic Growth and Job Creation following a reduction in Corporation Tax – DETI/ Invest NI/ InterTradeIreland composite return**

### Overview

- DETI welcomes the Corporation Tax (Northern Ireland) Bill and the intention of Her Majesty's Government to secure Royal Assent in advance of the General Election scheduled for May 2015. It provides the opportunity for the Northern Ireland Executive to take control of a major economic policy lever, assuming the consent of the NI Assembly and the conditions of the Stormont House agreement being met.
- The detailed design of the Bill is seeking to achieve four objectives, all of which Invest NI considers are appropriate:
  - Incentivise investment.
  - Minimise administrative burdens on companies, particularly SMEs.
  - Reduce costs for the Northern Ireland Executive.
  - Comply with legal requirements, particularly EU State Aid.
- A reduced CT rate will significantly add to the attractiveness of NI as an investment location for existing and potential new investors and bring benefits to our local business base. Invest NI welcomes the focus of the Bill on encouraging genuine investment and economic activity that will create jobs and growth, while minimising opportunities for tax avoidance and profit-shifting.
- The Northern Ireland Economic Strategy (NIES), published in March 2012, outlines that securing the ability to vary and lower the rate of Corporation Tax (CT) would enable us to rebalance the NI economy toward greater private sector and value added growth.
- The NIES recognises that lowering CT would be an important, but by itself, insufficient measure to transform our local economy. It would however allow the economy to be rebalanced quicker than otherwise possible.
- The Strategy outlines how we must, in parallel, improve others areas to grow the private sector and ensure greater export-led economic growth – explored further under question 1.

### Response to ETI Committee Key Questions

#### **1) What are the key economic drivers (other than 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.**

- The Northern Ireland Economic Strategy (NIES) identifies a range of key drivers needed to take full advantage of lower Corporation Tax. These are:
  - Ensure the supply of **skills** meets the demands of the economy;

- **Compete globally** for high value investors through targeted promotion and support;
  - Strengthen **innovation and R&D** capabilities to support investments;
  - Encourage **business growth** through the support the growth of local SMEs and develop supply chain linkages; and
  - Ensure appropriate **infrastructure** is in place to meet the needs of new investors.
- Future actions across the Executive, to help take full advantage of reduced Corporation Tax will therefore be focused on delivering against each of these five areas.
  - Two of the five key areas identified above – **skills** and **competing globally** through government support – come through particularly strongly in other available literature on the determinants of FDI.
  - Although not listed as one of the key determinants for FDI location decisions (which were corporate taxes, labour costs, market size and track record), research carried out by fDi Intelligence<sup>1</sup> for DETI identified both “incentives” and “skills” as important factors in influencing FDI decisions. In addition, the recent briefing paper by the NI Assembly Research and Information Service<sup>2</sup> identified “skilled workforce availability” as a key factor for Northern Ireland as well as “government incentives and “investment promotion agency support” as deal breakers.
  - These two additional drivers would therefore be seen as vitally important to taking full advantage of reduced Corporation Tax

## SKILLS

- The NIES recognises that one of the most important assets of the NI economy is our people. To enhance employment and productivity, we need to develop skills at all levels in NI. That is why the NIES recognises skills as one of the key drivers of economic growth.
- Skills have been a key factor of NI’s existing success for FDI and will continue to be vital going forward, particularly with more companies requiring more skilled people.
- Taking full advantage of reduced Corporation Tax will require a strong understanding of the *demand* for skills to ensure that the appropriate *supply* of skills are available to meet the needs of investors. DETI, DEL and Invest NI will be taking forward a research project in 2015 which will help to identify the likely skills needs that companies attracted by Corporation Tax will have to help inform future skills planning and forecasting work.
- These two factors are generic across all companies, but it is acknowledged that the needs of specific sectors and business activities will be different. DETI, DEL and Invest NI will be carrying out research in 2015 which looks at NI’s international competitiveness in key FDI sectors likely to be attracted by reduced Corporation Tax, and identifies sector-specific actions needed to strengthen our proposition.

<sup>1</sup> <http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf>

<sup>2</sup> <http://www.detini.gov.uk/attracting-high-value-fdi>

This will work will be a key information source to identifying those drivers that the NI Executive needs to focus on to take full advantage of reduced Corporation Tax.

- Invest NI already works closely with DEL on boosting the supply of skills and meeting the needs of investors. There is a need to build upon this work. The Executive should encourage greater collaboration between DEL, DE, DETI, Invest NI and other key stakeholders to put in place a range of policies to attract and retain talent in NI, as well as better equip young people to fill the job opportunities which a lower CT rate will generate.
- We understand that the Department for Employment and Learning has also responded to the Committee's Inquiry in relation to the importance of skills as an economic driver.

## **COMPETING GLOBALLY**

### **Exports**

- The NI Economic Strategy, published in March 2012, identified export-led economic growth as its key driver. In particular, it states: *"we need to significantly increase our export focus if we are to achieve our economic goals, but the challenge is to both grow exports and diversify into new markets"*
- The NIES also recognised the need to build on Northern Ireland's existing strengths as well as exploit new opportunities in the global economy. We have a great many local firms who are already competing successfully overseas. We will continue to do all we can to assist these firms and also work with new exporting companies to increase and diversify our export base.
- Growing the competitiveness of the Northern Ireland economy through a focus on export-led economic growth will remain a key priority for the Executive going forward. Export-led growth will remain the key aim of the refocused Economic Strategy for the post 2016 period.
- Recognising the importance of exports as an economic driver, DETI has been working with Invest NI and Intertradelreland to develop an Exports Action Plan for Northern Ireland. The purpose of the Action plan is to provide a framework for local and regional export support bodies to provide a more effective and responsive export network that will better address the Northern Ireland Economic Strategy goal to increase employment and wealth by building a larger and more export driven private sector.

### **Direct Financial Incentives**

- As outlined above, government promotion/support is one of the key determinants for FDI location.
- Direct financial incentives provided through SFA are constrained by EU State Aid limits, which have been declining in recent years, but NI still needs to try to retain its ability to use these incentives as much as possible over the coming years.

- Outside of SFA, there are a wide range of other financial and non-financial incentives that can be offered – such as for R&D and Innovation, and skills development – which are not subject to such tight limits and can complement a reduced CT rate.
- Invest NI will be carrying out research in 2015 looking at how their offering, both in terms of supports and staffing, might need to change to use low Corporation Tax as effectively as possible. However, any future budget decisions by the NI Executive which negatively impact on DETI and Invest NI would limit our ability to compete using these incentives and thus help to differentiate us from other lower tax locations.

## **INNOVATION AND RESEARCH & DEVELOPMENT**

- The NIES recognises the strong links between innovation and value-added economic growth and outlines a number of commitments which seek to promote investment in innovation and R&D.
- Innovation is a critical economic driver because it is an integral part of a virtuous circle. It drives R&D, which in turn leads to economic growth. Companies who are innovative are more productive, growing sales and employment twice as fast as their non-innovating competitors and are more likely to export. Research by NESTA and supported by OECD and BIS found that investments in Innovation are responsible for almost 2/3rds of improvements in productivity.
- The Executive's new Innovation Strategy, launched in September 2014 reinforces the need to support more companies across all sectors (including manufacturing and service sectors) and in businesses of all sizes to engage in innovation.
- We are seeing great increases in the R&D investment in the local economy, and there is a strong correlation between companies who invest in R&D and export performance, however only a relatively small number of companies in our business base will be R&D active. Many more will innovate through improved products, processes, skills and design and this is particularly important in small manufacturing companies and in service sectors.

## **BUSINESS GROWTH**

### **Access to Finance**

- Access to finance remains a key issue for Northern Ireland businesses. The Executive continues to examine and explore options for ensuring local companies have access to appropriate and affordable finance to support investment and assist in continuing growth.
- Invest NI's suite of equity funds provides an effective tool in terms of attracting mobile high growth potential early stage businesses to Northern Ireland. Many such businesses will have a technology bias to their business, but may also be involved in advanced manufacturing or services. Further information on Invest NI's suite of funds can be accessed by visiting the following link.  
<http://www.investni.com/support-for-business/funding-for-business/access-to-finance-strategy.html>

## **Supply chain development**

- The NIES outlines that lowering the rate of CT would help attract more added-value FDI and integrate companies into the local economy through supply chain and other linkages.
- Local SMEs will gain from working with new multinational companies attracted by low CT. NI currently has a strong local base within software, business services, pharmaceuticals and advanced manufacturing which can link into supply chains of foreign companies.
- There is also the potential to support the development of innovative clusters between local SMEs in key FDI sectors, particularly in pharmaceuticals and semiconductors.

## **Business Regulation**

- A key selling point to new investors is a stable and business-friendly legal and regulatory environment. Less bureaucracy and more flexibility for business activity sends a very positive message. While businesses welcome the value of good regulation and recognise its value in contributing to economic competitiveness for a regional economy there is an onus on government to ensure that regulations are well designed and efficiently and effectively implemented.
- The UK Coalition Government has placed a high priority on regulatory reform during this Parliamentary Session. It has undertaken a series of better regulation and regulatory reform policies, including the Red Tape Challenge, to support its aim of being the first Government to leave office with less regulation in place than when it entered office.
- The Executives Review of Business Red Tape was undertaken in 2013-14 and the report – Making Life Simpler: Improving Business Regulation in NI, was published in November 2014. This includes a wide range of challenging and innovative recommendations to further improve the regulatory environment in NI and as such to strengthen its contribution to NI's competitiveness as a business location. The NI Executive is currently preparing a regulatory reform agenda largely in response to the Making Life Simpler report, for public consultation later in 2015.

## **ECONOMIC INFRASTRUCTURE**

### **Infrastructure and Accessibility**

- Infrastructure and accessibility are often identified as a key quality factors in determining an investment location. This is an area where Northern Ireland is usually rated moderately compared to competing locations.
- Significant investments have been made in communications infrastructure in NI and this area needs to remain a priority for the NI Executive as it will help facilitate investment across a range of sectors.

- External accessibility to markets and suppliers and a good roads network and ease of travel are important economic drivers in order to drive investment across the whole of Northern Ireland.

## Energy Costs

- On cost factors, energy costs continue to be a key issue for both existing businesses as well as for attracting inward investment, particularly for larger energy users who are disproportionately affected by high energy costs.
- InterTradeIreland through its all-island Business Monitor, regularly surveys businesses on the key challenges they face. Rising costs of overheads and energy costs regularly top the list of concerns in both Northern Ireland and Ireland, although the most recent survey in quarter 4, 2014 shows a fall in the number of businesses citing energy costs as their main challenge.
- There is little opportunity for the NI Executive to influence energy costs. Wholesale energy costs are set on world energy markets, with network and related costs, including final retail tariffs for SMEs and domestic consumers, regulated by the independent Utility Regulator.

## Telecoms

- Access to strong, reliable and fit-for-purpose communications services are fast becoming an essential to every-day life and are now widely recognised on a global scale as being critical to economic success and social cohesion. Online connectivity impacts on how we do business, how we learn, how we communicate with others and how we spend our leisure time.
- According to research carried out by Ofcom as part of its Communications Market Report 2014, some 83% of SMEs in Northern Ireland agree that communications services are fundamental to their business with fixed phone and fixed internet services rating as the most important out of a range of services, scoring 8.9 and 9 (out of 10) respectively. Mobile phone services also rated highly with a score of 8.4 out of 10 while mobile internet services were rated at 6 out of 10 in order of importance. This would be true of both indigenous and inward investment companies and across all sectors of industry.
- To put the importance of broadband internet connectivity into economic terms, in November 2013, research conducted on behalf of the Department of Culture, Media and Sport (DCMS) concluded that the availability and take-up of faster broadband speeds would add around £17 billion to the UK's Gross Value Added (GVA) by 2024 and that the total net employment impacts over the same period would rise to about 56,000<sup>3</sup>.
- The same report also found that there are various mechanisms through which faster broadband can lead to economic impacts, concluding that broadband network deployment produces spillover effects to all sectors of the economy.

---

<sup>3</sup> Source: UK Broadband Impact Study: SQW (November 2014)

- The importance of economic infrastructure, including telecommunications networks, is already recognised as a priority by the Northern Ireland Executive and is a feature in a number of strategic documents including the Regional Development Strategy 2035<sup>4</sup> and the Economic Strategy<sup>5</sup>, particularly in regard to the significance for attracting inward investment.

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

- The contribution which a lower CT rate will make to the growth of the manufacturing sector is particularly noteworthy. Of all the sectors in the NI economy, the manufacturing sector is forecast to generate the most additional jobs from a reduced CT rate.
- The fDi Intelligence work for DETI examined the impact of lower Corporate Tax rates on the manufacturing sector and noted that:
  - Manufacturing FDI is driven by access to markets and suitable labour force available at reasonable cost;
  - Large scale capital investment facilitates channelling of regional/global profits to the country; and
  - CT is therefore an important consideration especially for high capital investment/high profit projects (e.g. life sciences).
- The fDi report also noted that its database, which tracks the motives determining investment locations, finds that corporate tax is more frequently cited by companies as a critical factor determining investment location for manufacturing projects that for R&D or software & IT projects.
- NISRA's Inter-Departmental Business Register indicates that foreign owned production firms (primarily made up of manufacturing sector) are more labour-intensive relative to firms in other sectors. While 17% of foreign-owned firms are within the production industry, these firms account for a proportionally larger share of employees (31%). This would suggest that foreign manufacturing firms would put more weight on labour market issues – such as availability and costs of labour supply.
- It should be noted that manufacturing is a diverse sector and, within this, the key drivers are likely to be different for particular sub-sectors and business activities. The DETI, DEL and Invest NI research being carried out in 2015 will focus on those sectors (both within manufacturing and services) that are most sensitive to reduced Corporation Tax to identify what key economic drivers the NI Executive should focus on to improve our competitiveness.

## **Telecoms**

---

<sup>4</sup> *“Capitalise on direct international Connectivity. In March 2010 Northern Ireland’s first direct international telecommunications link to North America was completed. This also improved existing links to Europe with high bandwidth. Connectivity supports foreign direct investment and offers a significant competitive edge for the benefit of the Region”.* Regional Development Strategy –RDS 2035: Department for Regional Development

<sup>5</sup> Economic Strategy: Priorities for Sustainable Growth and Prosperity: March 2012

- As stated under question 1, improvements in communications infrastructure has impacts on all sectors of the economy to varying degrees.
- In January 2013 Regeneris conducted a study<sup>6</sup>, on behalf of BT, into the potential economic impacts of fibre broadband. This study looked at five specific sectors (Advanced Manufacturing; Creative & Digital; Financial Services; Retail; and Agri-food) and sought to identify what benefits fibre broadband could bring to the Northern Ireland economy by 2018.
- With regard to advanced engineering it was considered that fibre broadband could assist companies in diversifying into new added-value markets; better integrate supply chains; increase usage of cloud computing; and exploit networks to share large renderings and designs, leading to costs savings of circa £2m and revenue generation of £56m by 2018.

## Energy Prices

- Energy prices are very important for the manufacturing sector, with bodies such as the CBI and Manufacturing NI raising concerns about the level of electricity prices for LEUs in NI in particular. Analysis has been undertaken in relation to this issue and it is clear that re-structuring of charges in favour of one customer group will lead to higher prices for others. Such actions may also be contrary to EU State Aid and competition law.

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

- The fDi Intelligence work examined the impact of lower Corporate Tax rates on the business and financial services sector and noted:
  - CT very important for strategic business functions which are regional/global profit centres;
  - Can be seen in relocation of HQs/FS to Switzerland;
  - And growing success of ROI in FS and HQs; and
  - CT likely to have a smaller impact on front and back office operations which are cost centres or for market-seeking projects.
- For the R&D and software sector (which would largely fall under the services sector), the fDi work noted that it is:
  - Driven by availability and quality of HR, research, and clustering
  - Often cost centres, not profit centres so less tax driven
  - CT is of less importance but still has a positive impact
- The work found that the role of CT for business, professional and financial services is likely to depend on the nature of the operation. Strategic operations with regional or global coverage are more sensitive to corporate tax than retail or back office type operations. It also notes that the importance of corporate tax for services can be seen in the steady relocation of financial services and headquarters operations from London to Switzerland and the growing role of Republic of Ireland for both functions.

---

<sup>6</sup> Northern Ireland's Fibre Future -Report on the economic impact of fibre broadband in Northern Ireland: Regeneris (January 2013)



- It should be noted that services is a diverse sector and, within this, the key drivers are likely to be different for particular sub-sectors and business activities. The DETI, DEL and Invest NI research being carried out in 2015 will focus on those sectors (both within manufacturing and services) that are most sensitive to reduced Corporation Tax to identify what key economic drivers the NI Executive should focus on to improve our competitiveness.

## **Telecoms**

- Fast, reliable and resilient telecoms links are crucial particularly for services sector businesses that typically rely on ICT technologies in the delivery of their services to clients.
- The Regeneris report mentioned under question 2 also provided an analysis of the impact that fibre broadband availability could have on the financial services sector. The report concluded that fibre-based broadband connectivity could assist firms in the sector in reducing transaction costs; hosting business applications online; and broadening their client base, leading to cost savings of circa £2.6m and revenue generation of some £36m by 2018.

## **Access to Finance**

- Equity remains a priority for many SMEs who wish to develop their businesses. Invest NI's suite of funds can help to make that investment possible, if an external business is prepared to re-locate to Northern Ireland.
- NISPO and Co-Fund NI have provided evidence of this investment success. In addition, the new Accelerator programme will also seek to attract Foreign Direct Investment (FDI) teams, which could then be anchored here through further equity support from funding available from Invest NI. Once more established, these businesses would have the opportunity to expand further, with more funding coming from the other elements of the funding continuum: specifically the Development Funds and the Growth Loan Fund.

## **Energy Costs**

- Energy costs will also be of interest to the service sector, though their energy demand is likely to be lower than manufacturing, and SME retail energy costs are regulated (incumbent suppliers only), to ensure bills are at least cost to consumers.

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

- Whilst recent trends and performance have been positive, DETI recognises that there is still a long way to go to improve the economic competitiveness of the Northern Ireland economy and achieve the vision set out in the NI Economic Strategy. Northern Ireland has recovered more slowly than other regions from the downturn and many substantial challenges remain.

- Northern Ireland has a very strong track record in the attraction of FDI, outperforming many larger regions. NI's success in attracting new investors and encouraging existing investors to expand has been a key driver of economic recovery and rebalancing over the past five years. In headline terms, more than 12,000 FDI jobs have been promoted at a time of very difficult trading conditions.
- Much of the FDI attracted into Northern Ireland in recent years has been in cost-sensitive activities and functions. Firms have been attracted by skills availability, low labour and property costs, ease of doing business and support from Invest NI, DEL and others. Given the need to continue to create jobs, it is essential that this model continues to be operated, as a lower CT rate will not materially influence these types of investments, whether they are new FDI or re-investments by existing investors.

### **Innovation/Horizon 2020**

- The Northern Ireland economy recognises that innovation is vital to productivity and growth and it is widely acknowledged that more companies in Northern Ireland need to engage in innovation. Currently, only 40% of NI companies are engaged in innovation, this is against the UK average of 45% with the top performing region, the South East at 51%.
- The Innovation Strategy sets out over 60 actions designed to help transform the NI economy into one of the most innovative regions in the UK however, the scale of the challenge is not to be underestimated. One very positive sign of progress, with funding support from DETI, the Northern Ireland Science Park, CONNECT programme is already starting to show dividends.
- With NI now currently being the second fastest growing Knowledge Economy in the UK continuing to support and attract FDI in NI will improve R&D and innovative collaboration partnerships. Horizon 2020 is also to focus on international collaboration provides an excellent platform for this. A new Horizon 2020 strategy for NI has been produced which sets out the very actions required to deliver an ambitious €145 target from Horizon 2020.

### **Skills**

- Skills have been a key factor of NI's existing success for FDI and will continue to be vital going forward, particularly with more companies requiring more skilled people.
- Taking full advantage of reduced Corporation Tax will require a strong understanding of the *demand* for skills to ensure that the appropriate *supply* of skills are available to meet the needs of investors. DETI, DEL and Invest NI will be taking forward a research project in 2015 which will help to identify the likely skills needs that companies attracted by Corporation Tax will have to help inform future skills planning and forecasting work.
- We understand that the Department for Employment and Learning has also responded to the Committee's Inquiry in relation to the importance of skills as an economic driver.

## Access to Finance

- The DETI Minister asked her Economic Advisory Group (EAG) to carry out a review to detail funds, programmes and support available to businesses, to identify any gaps in current provision and to make recommendations on how the situation might be improved. Their Review of Access to Finance for Northern Ireland businesses, published in March 2013, set out 13 recommendations for implementation by banks, business and government, covering both supply and demand side issues which sought to improve the finance environment for SME businesses.
- Considerable progress has been made in addressing many of the issues raised by the EAG report, through work by both the Joint Ministerial Taskforce on Access to Finance, chaired by the Northern Ireland Secretary of State and the Access to Finance Implementation panel which was established in October 2013 to oversee implementation of the EAG recommendations.
- In parallel, the UK Government's British Business Bank has been established to increase the supply of finance for SMEs through a range of programmes. In Northern Ireland, the Business Bank works through delivery partners to deliver the Enterprise Finance Guarantee, the ENABLE (Wholesale) Guarantee Programme, the Investment Programme (including its predecessor Business Finance Partnership), and the Start-up Loans Programme. The Executive has been engaging closely with Business Bank officials to ensure that the Bank's programmes are operating effectively and promoted widely for Northern Ireland SMEs.
- Invest NI's Access to Finance Solutions are now in place and given they are at an early stage in Northern Ireland, it is accepted that more may need to be done to promote them as a driver to encourage foreign direct investment. Invest NI maintain responsibility for delivering access to finance solutions and they utilise the role of their Fund Managers, to make this possible.

## Telecoms

- The latest statistics from telecommunications regulator, Ofcom indicate that Northern Ireland has the highest availability of Next Generation Access networks in the UK at 94% of premises but that, due to long line lengths created by the relatively large number of dispersed premises, the technology will not deliver superfast broadband services to all. Despite this, the availability of superfast broadband services (at 77%) continues to be ahead of the other devolved nations and above the UK average (see Figure 2 below).

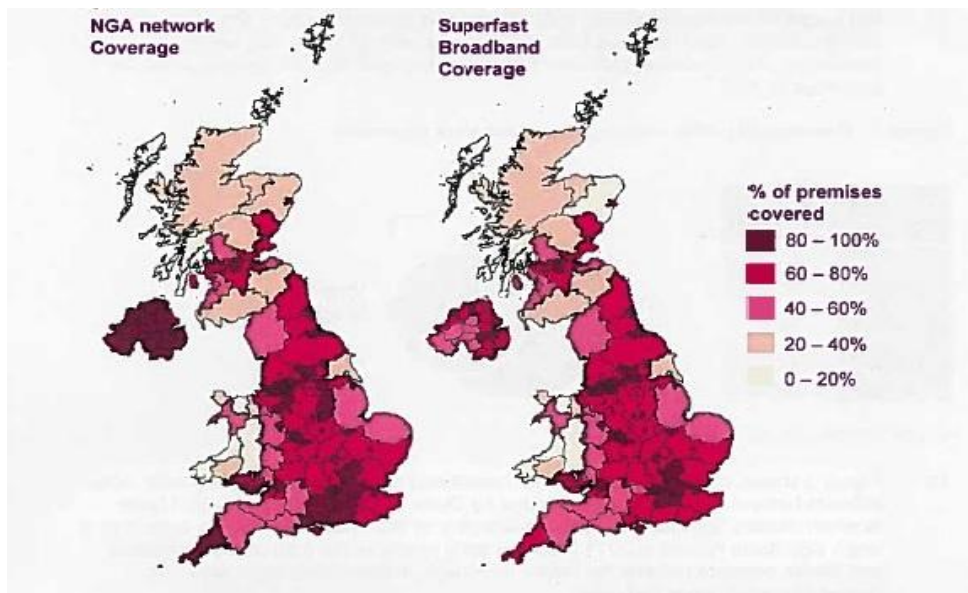


Figure 2 – Availability of NGA and Superfast Broadband Coverage by Local Authority<sup>7</sup>

- Take-up of fixed-line broadband services in Northern Ireland has remained relatively stable at 70% of residential premises overall, with the percentage of premises taking superfast broadband increasing on an annual basis. It is now estimated that 22% of broadband connections in Northern Ireland are superfast (UK average 21%).<sup>8</sup>
- The average connection speed of fixed line broadband connections in Northern Ireland are also continuing to rise and over the past two years have almost doubled to 24.8 Mbps<sup>9</sup>. Subsequently the percentage of premises that are now connected to a sub-2megabits per second (Mbps) broadband service is continuing to drop, now standing at 7% (conversely this means that 93% of broadband connection in Northern Ireland are realising speeds of 2Mbps or better).
- In terms of mobile coverage while there have been significant improvements over the last number of years due to ongoing industry investment, Ofcom estimates that around 1% of premises in Northern Ireland are in a 2G (voice, text and basic data services) not-spot<sup>10</sup> and 9% of premises are in a 2G partial not-spot<sup>11</sup>.
- When it comes to 3G (voice, text and high speed data) coverage, despite the progress made to date, 1% of premises in Northern Ireland are in a complete coverage not-spot and 37% are in a partial not-spot<sup>12</sup>.

<sup>7</sup> Source: Infrastructure Report 2014: Ofcom (December 2014)

<sup>8</sup> Source: Infrastructure Report 2014: Ofcom (December 2014)

<sup>9</sup> Source: Infrastructure Report 2014: Ofcom (December 2014)

<sup>10</sup> A not-spots is defined as an area where there is no mobile signal from any mobile network operator

<sup>11</sup> A partial not-spot is an area where there is signal from only one or two of the mobile network operators but not all four

<sup>12</sup> Source: Infrastructure Report 2014: Ofcom (December 2014)

## Energy Costs

- Energy costs are one aspect of investment decisions, and the scale of importance will be industry specific.

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

- The Executive Sub-Committee on the Economy will be undertaking a review and refocus of the Economic Strategy during 2015. This refocus will provide an opportunity to identify and take measures to address any gaps in priority economic drivers.
- It will also outline the Executive's actions to maximise the anticipated benefits of a low rate of CT in Northern Ireland.

## SKILLS

- It is understood that DEL has provided written input into the Committee's Inquiry on skills and outlined the following issues: demand for higher level skills; developing our skills base and employability; and the importance of skills such as STEM skills. DEL indicated that they were addressing these issues through its overarching *Success through Skills – Transforming Futures* Strategy.
- Invest NI works closely with DEL on boosting the supply of skills and meeting the needs of investors but recognises that there is a need to build more greatly upon this work.
- The Executive should encourage greater collaboration between DEL, DE, DETI, Invest NI and other key stakeholders to put in place a range of policies to attract and retain talent in NI, as well as better equip young people to fill the job opportunities which a lower CT rate will generate.
- Businesses are looking to DEL and the FE/HE sector to increase provision and the pipeline of young people into a number of sub-sectors including automotive. They are also looking to DE to align education and skills provision to growth sectors and job opportunities in the future.
- The Executive should also consider the conclusions and recommendations of the upcoming Skills Barometer research which has been commissioned by DEL.
- Specific skill needs vary considerably by sector and it is important that policies are tailored for specific sectors/subject areas. There are currently issues, for instance, in the ICT sector, whilst firms in the construction sector also report difficulties in recruiting skilled personnel. Skills shortages have required some firms to recruit overseas. Labour availability is particularly important to Business Services companies as it is their main resource, particularly when considering locations for inward investment. Overall, a lower CT rate will widen the sectoral demand for skills and potentially ease the pressure on sector-specific skills challenges in areas such as ICT.

## **COMPETING GLOBALLY**

- The promotion of exports is central to the United Kingdom (UK) Government's strategy for economic growth. In common with the UK-wide strategy, NI has placed a key focus on exports. The NI Economic Strategy, published in March 2012, identified export-led economic growth as its key driver.
- DETI, Invest NI and InterTradeIreland are working with key stakeholders to develop an exports action plan. The plan is based on the ambition set out in the Economic Strategy that there is an on-going transition toward a vibrant economy that will be more proactively international, focused on sustainable growth goals and based on real competitive advantages derived from our high growth priority sectors. The development of the Export Plan is a new and innovative and in order to succeed will require a collaborative partnership approach across, Central and Local Government, companies and their workforce across all sectors. Through such partnership working we aim to elevate the importance of exports in local economic development plans and to make exports the key indicator of regional economic performance.

## **INNOVATION AND RESEARCH & DEVELOPMENT**

### **Innovation**

- If Northern Ireland is to improve its innovation performance and become a truly innovative knowledge based economy it will require a significant change in how we view innovation across all sectors of our economy including businesses, academia, 3<sup>rd</sup> sector and our public sector.

## **BUSINESS GROWTH**

### **Access to Finance**

- While much progress has been made to address the issue of access to finance, the Executive will continue to take forward a range of actions, including for example:
  - Promotion of Invest NI's Access to Finance Solutions as a driver to encourage FDI and business growth.
  - Continued engagement with the British Business Bank to ensure their programmes and funds are operating effectively in Northern Ireland;
  - Addressing the issue of property overhang to ensure that viable companies are not being constrained from exploiting growth, innovation and/or export opportunities as a result of property debt; and
  - Research on venture capital, which has been commissioned by DETI in response to the EAG Access to Finance report, to bring forward recommendations for the future of early stage and growth finance in Northern Ireland.

### **Growth Finance**

- ITI Research has shown that as we leave behind the effects of the financial crisis, there remain key structural challenges, particularly in areas of information and capability, in the market that supports businesses seeking to access growth finance.

- For smaller, younger SMES seeking growth finance, the funding environment can be complex with the result that they resort to traditional option – i.e. a bank overdraft or loan ignoring other available options that would be a more efficient fit with their investment need.
- In response, ITI has recently launched a new Funding for Growth Advisory Service to signpost businesses seeking growth to practical funding options that best suit their investment requirement.

### **Business Regulation**

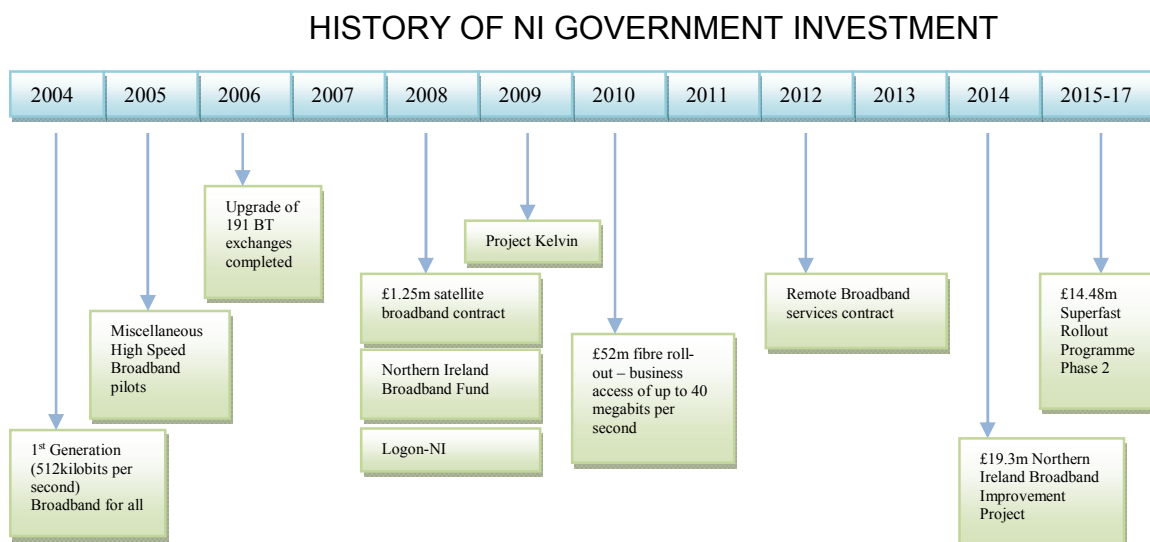
- The NI Executive is currently preparing a regulatory reform agenda largely in response to the Review of Business Red Tape for public consultation later in 2015.
- This agenda will seek to address the wide range of challenging and innovative recommendations to further improve the regulatory environment and as such strengthen its contribution to NI's competitiveness as a business location.
- Invest NI has indicated that businesses in the agri-food sector are concerned that they continue to be impacted heavily by overly bureaucratic regulatory obligations, especially in planning and Integrated Pollution Prevention and Control. The sector is keen that the new model being piloted for reviewing specific regulatory issues leads to improvements.

## **ECONOMIC INFRASTRUCTURE**

### **Telecoms**

- The telecommunications market in Northern Ireland, as in the rest of the UK, is fully privatised and independently regulated on a national basis by the Office of Communications (Ofcom).
- Telecommunications is a reserved matter meaning that it has not been devolved to the Northern Ireland Executive but is controlled centrally by the Department of Culture, Media and Sport (DCMS) in London.
- Under the Communications Act 2003, the Department of Enterprise, Trade and Investment (DETI) has been given limited powers to intervene where there is evidence of market failure but only where it does not distort competition in the market and complies with European regulations.
- Working within that context, since 2004 DETI, working with the European Union, UK Government, other Northern Ireland Executive Departments and the Private Sector, has developed and delivered a number of initiatives aimed at improving Northern Ireland's infrastructure both in terms of internal and international communications. By the end of 2015, some £64m of public investment will have been made in these initiatives (see Figure 1 below)

**Figure 1: History of NI Government Investment**



- These, together with ongoing industry investment, have led to Northern Ireland having advanced telecommunications networks, which is one of the selling points currently used by Invest Northern Ireland in attracting inward investment opportunities (see <http://www.investni.com/invest-in-northern-ireland/why-northern-ireland/advanced-infrastructure.html>).
- While much has already been done to improve the quality of the communications infrastructure in Northern Ireland to date, given the increase in demands and the growing use of more bandwidth hungry applications and devices, it is crucial that the Northern Ireland Executive continues to invest in initiatives aimed at encouraging communications providers to further upgrade their networks with a view to underpinning local economic growth and increasing inward investment opportunities. The Department is continuing to look at opportunities for further improving the networks.

### Accessibility

- External accessibility to markets and suppliers also needs to be improved including through additional direct routes from NI airports. The Department is examining the potential, including costs, for a new Northern Ireland specific air route development fund which would commence operation in 2016/17. The purpose of this fund would be to develop connectivity to business destinations and those routes with inbound tourism potential. A good roads network and ease of travel are also important in order to drive investment across the whole of Northern Ireland. Improved accessibility will help facilitate investment across a range of sectors, particularly in manufacturing.

### Energy Costs

- Whilst Invest NI recognises that there are limits to the Executive’s influence on energy prices, business continues to look to the Executive to deliver measures that can achieve a more competitive energy market in Northern Ireland as well as



prioritise policies and solutions which can help improve energy infrastructure, resource efficiency and productivity.

Prepared by: Economic Policy Unit  
13 April 2015