Inquiry: The Potential for Economic Growth and Job Creation Following A Reduction in Corporation Tax in Northern Ireland

Respondent: Invest NI

Overview

1. Invest NI 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.

2. 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.

3. 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 Economic Potential of a Lower CT Rate

4. Whilst recent trends and performance have been positive, Invest NI 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.

5. The modelling work undertaken by the Economic Policy Centre (EPC) at the University of Ulster highlights the potential for a reduced level of CT to act as a stimulus for substantial additional investment, jobs and value added in the NI economy. Assuming a 12.5% CT rate is implemented from April 2017, it is estimated that the NI economy in 2033 would be 10% larger with 38,500 more jobs compared to a scenario without CT.

6. The estimates show that the main effects from a reduced CT rate will come through new Foreign Direct Investment (FDI) and existing FDI expansions, together accounting for 93% of the combined additional employment benefit. 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.

7. 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 be new FDI or re-investments by existing investors.

8. NI has had relatively limited success historically in attracting profit centres and higher value added activities. A lower CT rate gives NI the opportunity to target strategic business functions which are regional/global profit centres and high technology functions. This will involve a new and additional area of work for Invest NI and other key stakeholders in developing sales propositions, targeting investors and put in place appropriate support packages. In addition to support to secure these investments into NI, a substantial budget for promotional activities is required to position NI ahead of other regions who are selling similar FDI messages. NI faces fierce competition for these globally mobile investments and it will require substantial commitment and resources to ensure NI is considered an option for such projects. A lower rate of CT will 'open many more doors' for NI and there is a need to ensure that the opportunity is maximised to grow profit focused FDI.

9. Whilst the bulk of additional employment from lower CT is expected to come from new FDI and expansions by existing investors, a reduced CT rate will also benefit indigenous NI firms across a range of sectors who will be more able to invest and grow. The EPC work highlights the specific potential for a reduced rate of CT to further expand those sectors which Invest NI has prioritised in recent years, including:

   - Manufacturing;
   - Information and Communications Technologies;
   - Professional, Scientific and Technical Activities; and
   - Finance and Insurance.

10. 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.

11. Linked to this, CT provides opportunities for growth and jobs to be spread across Northern Ireland. By its nature, CT is a broad based measure and lowering it encourages investment in capital and productivity improvements. Firms that are dynamic and profitable across Northern Ireland will benefit from a lower CT rate; the growth of which will contribute to sub-regional competitiveness and prosperity.

12. A lower CT rate will impact on competitiveness in NI differently depending on which sub-sector is being considered. For this reason, the Executive should focus on those drivers

which are cross sector, building on the existing NI offer to investors. The next section considers some of the key drivers based on Invest NI's experience of working with investors.

Other Drivers of FDI, Growth and Employment

13. The re-balancing challenge in NI remains significant. A reduced rate of CT is not a panacea and its impact will only be maximised in combination with the suite of Invest NI solutions and activities to ensure that the Northern Ireland investment proposition is one of the most attractive in the world.

14. Research by FDI Intelligence for DETI examined a wide range of factors which influenced location decisions for mobile investments, as well as the corporate tax rate. The indicators included:

- Market size – GDP
- Access to markets
- Productivity – GDP/capita
- Openness to FDI – ownership rules
- Labour availability/skills
- Labour regulations
- Labour costs
- Existing stock of foreign investors
- Levels of R&D/innovation
- Infrastructure – air route connections
- Quality of life
- Property cost
- Financial incentives

15. The analysis showed that the most important determinants of FDI flows were market size, labour costs, existing stock of investors and labour availability and skills. Market access is a key issue too and membership of the EU has been an important factor for NI in securing FDI. Were the UK to leave the EU following a referendum, this would place considerable uncertainty at best on NI's FDI prospects.

16. Of the quality factors, the key area which the Executive can influence is the current and future skills pipeline. 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.

17. 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. 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.

18. Infrastructure and accessibility are often identified as the second most important quality factor 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. Fast, reliable and resilient telecoms links are crucial particularly for services sector businesses who typically rely on ICT technologies in the delivery of their services to clients.

19. External accessibility to markets and suppliers also needs to be improved including through additional direct routes from NI airports. Whilst it is recognised that APD will not be abolished directly by the Executive in the short term, priority should be given to exploring opportunities for new routes through the UK Air Connectivity Fund. 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.

20. The other quality factors identified through our work as being important drivers of investment and job growth are business regulation and the NI political climate. Maintaining a good investment climate is crucial and the Executive should continue to pursue policies to make it easier to do business in NI, building on the NI Better Regulation Strategy and the outcome of the DETI review of business red tape and regulations.

21. 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 would be very positive. For instance, 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.

22. All investors look for certainty and stability in the political climate. Consensus government on the way forward for NI is very important to give potential investors confidence for the longer term and that NI has really changed and continues to be a positive example to the world. There is also a need for the Executive to establish and maintain credibility on CT in order to build investor confidence. The Executive already engages extensively with existing businesses and prospective investors, engagement which is valued very positively (ease of access to the NI Executive and its involvement in business is a powerful influencer to investors). There are a number of actions which the Executive need to take to maximise the benefits of a lower CT rate including:

- An unambiguous early announcement on the rate and start date (many investment decisions are made 2-3 years in advance).
- A clear commitment that the rate will apply for the long term.
- Agreeing a budget which shows how the lower CT rate will be paid for.

23. 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. 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.

Concluding Remarks

24. Invest NI's experience and other evidence indicates that the factors which drive investment and jobs growth varies by sector and sub-sector. A lower CT rate gives NI the opportunity to be considered for a wider range of investment projects which it is has historically not been able to compete for.

25. A twin track approach is required if the projected economic benefits are to be secured. First, the successful 'cost centre' model needs to be continued and built upon as there is potential for more investment and jobs to be secured. This involves maintaining the mix of incentives and other support for investors, many of whom will not benefit from a lower CT rate.

26. Secondly, substantial commitments and resources are needed to drive forward the opportunity for NI to secure regional/global profit centres and other functions linked to a lower CT rate. Significant efforts will be required to develop and promote the 'profit centre' offer in order for NI to be considered by a bigger pool of potential investors. A collective focus will be required across Government, with ensuring an appropriate skills pipeline the most important area for the Executive to influence in the short term.

27. In summary, a lower CT rate enables Northern Ireland to have one of the most attractive investment propositions in Western Europe. Invest NI have already developed a CT implementation plan which is ready to be rolled out once a rate and a date is agreed.

Alastair Hamilton

Chief Executive

Invest NI