4 March 2015

Mr Jim McManus
Clerk to the Committee for Enterprise, Trade and Investment
Room 375
Parliament Buildings
Belfast
BT4 3XX

Dear Jim

Committee Inquiry: Reduction in Corporation Tax and Economic Growth

You wrote to me on 23 January inviting IoD to submit views to the Committee in relation to the potential for economic growth and job creation following a reduction in the rate of corporation tax in Northern Ireland.

As you may be aware, the Institute of Directors (IoD) is a non-party political organisation representing the views of around 35,000 individual business leaders in the UK with almost 800 members in Northern Ireland. Members are drawn from the private, public and voluntary sectors. In Northern Ireland, the Institute has been, since the idea was first mooted, a staunch advocate of a reduction in corporation tax to a rate that would bring it into line with that in the Republic.

However, we do not see a reduction in corporation tax as the single panacea for addressing the current imbalance in the local economy or for realising the Executive's ambition for achieving significant economic growth. As the Committee's Inquiry clearly acknowledges, it represents just one piece of the jigsaw of measures that will need to be in place in order to maximise the opportunities afforded by any reduction.

The advantages of a corporation tax reduction have been well rehearsed, in terms of creating a level playing field with our neighbours – and competitors – in the Republic (that is, of course, contingent upon a decision to reduce in the first instance to a rate of 12.5%); helping to attract inward investors, particularly those who generate high quality, well-paid employment; and providing local SMEs with the opportunity to invest a greater proportion of their profits in their businesses. The downside has also been highlighted, in terms of the cost of some £300m to the NI Block Grant which, given the fact that the public sector contributes two thirds of Northern Ireland's GDP, could, if not addressed now, have a catastrophically deleterious impact on the economy.

A Vision for the NI Economy

Two years is a very small window of opportunity and now is the time to plan and put in place the measures required to complement the introduction of a lower rate of CT. For this to happen the Executive needs to articulate a clear vision for the NI economy which will provide the incentive for a new culture for cohesive working across Government Departments. Ministers need to demonstrate courage and maturity in taking difficult decisions; decisions about ending unnecessary duplication in education, for example in teacher training; decisions about rationalising Health and Social Care services; decisions about introducing income generation measures such as water charges; and decisions about changing the risk-averse culture in the civil service and incentivising civil servants to remove the obstacles to the creation of a business–friendly environment.

Institute of Directors
Northern Ireland

Riddel Hall 185 Stranmillis Road Belfast BT9 5EE
T +44 (0)28 9068 3224 **E** iod.northernireland@iod.com **W** www.iodni.com

Politicians in general need to demonstrate leadership in tackling issues such as long-running parades disputes that result in year on year scenes of violence on our streets. Regardless of the economic incentives to investment, such hallmarks of social and political instability will remain a deterrent to inward investors and discourage those young people with the skills so badly needed by our economy both now and in the future from remaining in or returning to Northern Ireland.

Investment in Infrastructure

The Global Competitiveness Report 2010-2011 of the 2010 World Economic Forum stated that extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact on economic growth and affect income inequalities and poverty in a variety of ways. A well-developed transport and communications infrastructure network is a prerequisite for the access of less-developed communities to core economic activities and services.

We have recently been voicing the concerns of our members about the lack of investment in another key aspect of infrastructure, power supply. Last April we highlighted some serious issues around the current stability of the Grid and the availability of adequate quantities of electricity at peak times of the day. Even if the priority issues are appropriately addressed now, the lead-in time for the required infrastructure investment means that stability and supply issues will become even more acute in the short term.

Grid infrastructure, power capacity, electricity cost and renewables policy are already having serious implications for the economy and indeed increased fuel poverty at the domestic consumer level. There are a number of policy and strategic investment issues that urgently require addressing, and it is critical that a new and co-ordinated approach is taken.

Businesses in Northern Ireland are well aware that electricity prices here are three times more expensive than in North America. The direction of travel of prices in the near term and the cost of grid connection impact on inward investment decisions have resulted in larger businesses planning to move off the grid or indeed curtail investment.

The threat of power constraints, combined with grid stability issues and increasing costs, are already a reality for businesses across the province. We are now at the point where larger businesses are coming off the grid since installing the means to generate their own power on-site is a much more viable option for them in terms of life cycle cost. While this is an economically sensible option for the individual businesses in question, the knock on effect of these large customers coming off the grid is that the incumbents have to cover more of the cost of the grid. This cost is then ending up ultimately at the domestic consumer's front door – a worrying number of whom are already experiencing fuel poverty.

Grid infrastructure is particularly stretched in rural areas where skilled jobs are in shortest supply. The ability of our current grid capabilities and infrastructure to cope with a potential increase in inward investment needs to be examined seriously to determine the realities of servicing such demands. It is our belief that the existing grid presents a significant economic restriction to growth.

There are a number of strands of policy around grid capacity, infrastructure and renewables which demand a revised long term integrated strategy. For instance, is a renewables target above 25% affordable, given the other investments which are essential?

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Right now we are on the financial cliff edge of essential new investment in our grid, interconnection and generation. Strategic plans for the medium to long term must be established which are aligned with economic and social policy requirements. Joined up, long term thinking is crucial in determining the long term viability of our grid, and vital to supporting crucial economic and social initiatives including jobs in rural areas, fuel poverty and business across all our communities in Northern Ireland.

Exploiting EU Funding Mechanisms

New and innovative ways of leveraging private sector investment is needed if we are to see any real increase in infrastructural investment in the required timescale. NI Departments must become more EU savvy, capable of exploiting new initiatives that are designed to help secure growth in the economies of Member States.

One such initiative is the Investment Plan for Europe. The EU Factsheet on this initiative describes it as a package of measures to unlock public and private investments in the real economy of at least €315 billion over the next three years (2015-2017). The Investment Plan consists of three strands:

(1) mobilising investment finance without creating public debt;
(2) supporting projects and investments in key areas such as infrastructure, education, research and innovation and
(3) removing sector-specific and other financial and non-financial barriers to investment.

Additional investment will target infrastructure, notably broadband and energy networks, as well as transport infrastructure in industrial centres; education, research and innovation; and renewable energy and energy efficiency. Funding will be channelled to viable projects, with a real added value for the European social market economy. This includes in particular but not only:

- Strategic infrastructure (digital and energy investments in line with EU policies)
- Transport infrastructure in industrial centres, education, research and innovation
- Investments boosting employment, in particular through SME funding and measures for youth employment
- Environmentally sustainable projects
- Innovation and Research & Development

The timing of this initiative is particularly opportune in light of the timeline between now and the introduction of a lower rate of CT. Civil Servants should now be working cross–departmentally to bring forward a list of **viable** projects that are consonant with the Executive's economic priorities and which could exploit the benefits of this EU initiative to the full.

Unleashing Public Sector Purchasing Potential

Public sector purchasing is an important lever in the local economy with a strong multiplier effect in the wider economy. For some time now members have expressed concerns about the adverse impact of procurement regulation on local business. In particular, we have consistently heard about the Central Procurement Directorate (CPD) applying interpretations of EU procurement legislation in a more restrictive way than it would be applied in the rest of the UK or the Republic.

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Most recently we have heard how procurement rules applied to the social housing sector inhibit activity by Housing Associations and create unreasonable obstacles to the achievement of social housing construction targets. This, of course, has significant ramifications for the construction industry. One particular example relates to design and build. Until 2009-10 developers were given a contract to design and build social housing schemes with a significant proportion of the Social Housing Development Programme delivered through this route. However, this approach was deemed to be out of sync with procurement guidance due to a lack of competition as was the option to purchase partially completed off the shelf schemes. By contrast, this method of procurement is still widely used in other parts of the UK.

We fail to understand why there should be a NI procurement policy rather than a UK policy as both defer to overarching EU legislation. We believe that urgent action needs to be taken to eliminate inconsistencies between public sector procurement practice here and elsewhere in the UK and Ireland which place local business at a disadvantage and could create a disincentive to potential inward investors.

The Jobs Plan

We have outlined above some specific issues that should be addressed in the very short term to pave the way for an economic revival post 2017. In addition to these, we would draw your attention to the 'Jobs Plan'. In 2011, IoD joined with seven other leading business organisations to launch this initiative. The Plan set out an economic framework and included a comprehensive agenda for real change in the local economy. It comprised a menu of actions needed to transform the economy from public sector dominated to private sector led.

Rather than rehearse all the components of the Plan here, I have attached a copy as an appendix to this response. You will see that in the main it is still germane to our ambitions for the economy, both pre and post introduction of a lower rate of CT and it provides a very comprehensive list of the economic drivers that are key to maximising the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs.

We do, however, acknowledge that there has been some very welcome progress in the areas we identified, in particular in the skills agenda with initiatives such as Assured Skills and in relation to planning reform. But now is the time for action and decision-making on an unprecedented scale if the Northern Ireland administration is to avoid sleep walking into this major economic opportunity.

Yours sincerely

Linda R Brown
Director
IoD Northern Ireland