



Northern Ireland
Assembly

Committee for Enterprise, Trade and
Investment

OFFICIAL REPORT (Hansard)

Enterprise and Regulatory Reform Bill: DETI
Briefing

27 September 2012

Through the Enterprise and Regulatory Reform Bill, government intends to address that disconnect between pay and performance by giving shareholders an empowered role and, essentially, enhancing their voting rights. The Enterprise and Regulatory Reform Bill intends to do that in three main areas. As it stands, shareholders have an advisory vote in relation to a company's remuneration policy. Essentially, whatever the outcome of a vote, no company is bound to take that on board. The Enterprise and Regulatory Reform Bill intends to change that by changing the advisory vote to a binding vote. Therefore, each company will annually, if it chooses, have a binding vote on pay policy, which will stand for the forthcoming year. If it chooses, it can extend that to a three-year period to allow for a more forward-looking pay policy that tallies with its corporate strategy.

Additionally, there will be provision for an advisory vote to take place annually. That will be a backward-looking vote on what has happened in the company in the previous year and how the pay policy has been implemented. If a company fails to secure a 75% positive vote, it will have to go back to the pay policy and have a binding vote again. Really, it is giving shareholders a more enhanced role in setting pay policy and ensures that payments made to individuals through the year are within the set terms.

It will also deal with exit payments, which have come to light in recent years. Any exit payment in excess of one year's base salary will have to go to a special vote by ordinary resolution at a general meeting. That puts in an extra check and gives shareholders that increased role in setting the terms under which directors are paid.

The current proposals relate only to quoted companies. Quoted companies are defined under the terms of the 2006 Act, but essentially are those listed on the stock exchange. There are about 1,000 quoted companies in the UK but only two in Northern Ireland. So, although the impact of this will be very limited in Northern Ireland, it is important that we proceed with the legislative consent motion to keep the legislative parity between Northern Ireland and GB and to stop a legislative gap from appearing, which could be problematic for businesses if they operate on a cross-jurisdictional basis with different legal codes in Northern Ireland and GB.

That sums up the main policy proposals in relation to directors' pay. I will pass you over to Mark, who will deal with the green investment bank elements.

Mr Mark Pinkerton (Department of Enterprise, Trade and Investment): Thank you. The green investment bank is being set up as part of the UK Government's commitment to pursuing the green economic agenda. They have discovered that the novel and long-term nature of green infrastructure investment can often deter private sector investors. So, the idea is to establish this green investment bank, which will provide funding for a number of green purposes and demonstrate that they can produce commercial returns in due course. The green investment bank will receive an initial £3 billion in funding from the UK Government. It will also be given borrowing powers in the future.

The bank has been set up in shadow form. It is not yet operational, and I think there are a number of state aid issues still being discussed with the European Commission. However, the purpose of this piece of legislation and its inclusion in the Enterprise and Regulatory Reform Bill is to ensure that the green investment bank adheres to its green purpose. So, it is legally committed to carrying on the institution to fund those green projects, that it maintains its operational independence and that the UK Government are able to provide funding for it. Those are the three purposes.

Banking is a reserved matter, as you are probably aware. If it was just a matter of setting up a bank, there would be no need for a legislative consent motion. The UK Government could do that for the UK as a whole. However, because of these green purposes, environmental policy is a transferred matter and we were advised legally that just to be absolutely sure that Northern Ireland businesses will be able to benefit fully from this additional funding, we do need to ensure that it extends to Northern Ireland by means of a legislative consent motion. It is really almost a belt-and-braces measure, if you like, but that is what it is about.

The Chairperson: It is very important. Has any member got any queries?

Mr Agnew: Is there any sense that these funds will have preferential interest rates compared with commercial banks, or is it about getting the expertise to ensure that those projects and the investment potential are understood?

Mr Pinkerton: I do not think that some of those details have been worked out, because, obviously, it has not gone live yet. As you are probably aware, the Department of Enterprise, Trade and Investment (DETI) maintains a list of types of funding available to businesses as part of its approach to the difficulties that businesses are finding. The details of that will be published on our website, and we will ensure that eligible businesses are fully aware. However, I cannot give you the precise details at that level yet.

The Chairperson: So, we have no indication yet as to how or when this bank may be operational.

Mr Pinkerton: It is hoped that it will be operational later this year, if the state aid issues can be finally put to bed.

The Chairperson: Right. OK.

Mr Newton: You indicated that the bank will have borrowing powers —

Mr Pinkerton: It will have borrowing powers in the future, yes.

Mr Newton: Has it already got an established budget?

Mr Pinkerton: Not yet. As I said, the intention is to provide it with £13 million to kick off; sorry, £3 billion of initial funding.

Mr Newton: But no assets?

Mr Pinkerton: It is in the process of being set up. We are not directly involved in that, but, as I understand it, they have a chief executive and a deputy chief executive, and so on, to start that type of work, and negotiations are going on with the Government to ensure that funding is there when it becomes operational.

Mr Newton: The state aid issues tend to take up rather convoluted periods, but are you hopeful that this will happen, either in this calendar year or the financial year?

Mr Pinkerton: Certainly, the Department for Business, Innovation and Skills, which is leading on it, is reasonably confident. It is just a matter, of course, of ensuring that there are not inequalities and that British companies are not benefiting over other member states, and so on. I am not aware that any major hold-ups are anticipated.

Mr Newton: Is it this financial year or calendar year that you are talking about?

Mr Pinkerton: They are talking about this calendar year.

Mr Flanagan: Thank you for your presentation. I have two questions rolled into one. There is an overall budget of around £3 billion. Will the North be given a specific budget of its own, or do we have to apply into that as and when —

Mr Pinkerton: Companies here will simply apply to the bank. There will be no quotas for regions at all.

Mr Flanagan: So, we could do really well out of it or really badly?

Mr Pinkerton: We could do very well, or not. It is up to the businesses and the quality of the applications.

Mr Flanagan: What kind of support is being offered to businesses in that sector to get them prepared in advance of the launch of the whole thing?

Mr Pinkerton: I am not sure that anything is being done at this very moment, because things are still not entirely clear. The Department of the Environment has a role, as do our innovation people in

DETI. It is something that we are looking at, but we do not have anything firmly in place yet. The main thing is to ensure that we are not ruled out on a technicality.

Mr Dunne: I apologise for being late and missing most of the presentation.

The Chairperson: You are grand.

Mr Dunne: Who is eligible for the funding? Do they have to be green-based projects?

Mr Pinkerton: Yes. There are actually five of these what they call green purposes: greenhouse gas emissions reduction; advancements and efficiency in the use of natural resources; protection or enhancement of the natural environment; protection or enhancement of biodiversity; and promotion of environmental sustainability. Those are pretty wide-ranging green purposes.

Mr Dunne: Can it be in manufacturing or —

Mr Pinkerton: I do not think that it is restricted to any sector, provided you can demonstrate that what you are proposing to do would contribute.

Mr Dunne: What about agriculture? Would it be eligible?

Mr Pinkerton: As far as I am aware, any business will be eligible. The rules will be established by the bank and the Department for Business, Innovation and Skills. I do not see any difficulty with agrifood businesses applying. I am not sure about farms, but I imagine that anyone who can borrow money from a bank will be eligible. We will make sure that businesses are aware of that when the bank goes live.

The Chairperson: To pick up on that theme, it would be important — and we raised this last week with the Minister — that when the bank does go live, details as to the sorts of projects — if there is anything, as I presume there will be, because there is a tie-in with Invest NI and funding on a number of projects. If details are coming through the Department on this, it will be important that they should be shared with members of the Committee and the wider elected membership of the Assembly anyway.

Mr Pinkerton: Absolutely. We will keep that in mind.

The Chairperson: I am sure that we are all being approached by constituents who have their own projects that maybe could do with a bit of extra funding.

Mr Pinkerton: That is why it is so important to ensure that we will benefit. It is just one additional source at a time when funding is, obviously, very much a problem for businesses.

Mr Flanagan: Chair, can I just ask one more? I want to go back to my previous question. If businesses here do really well out of it, will there be any Barnett consequential as a result?

Mr Pinkerton: No, I do not believe so.

The Chairperson: I want to go back to the other aspect of this. Has the Department taken account of the views of companies in the North on these proposals?

Ms Cassidy: The consultation was led by the Department for Business, Innovation and Skills and the issue has been consulted on since October 2010 on a UK-wide basis, including Northern Ireland. The responses to that consultation informed a further consultation where they worked out further details. Again, they put it out to consultation on a UK-wide basis. We have been informed by the Department for Business, Innovation and Skills that there were no specific responses from Northern Ireland. The consultation as a whole achieved a largely positive response from the Confederation of British Industry, large business and all the professional bodies. It has been welcomed on a UK-wide basis, but there have been no specific Northern Ireland issues.

The Chairperson: So, by and large, industry as a whole — small, medium and large companies — regard it as not disadvantaging their capacity to operate?

Ms Cassidy: Yes. The key is that it only applies to the quoted companies, namely those large companies. On the whole, it has been widely welcomed.

The Chairperson: As a matter of interest, how many of those companies are there in the North?

Ms Cassidy: There are only two that we are aware of at the minute in the North. There are about 1,000 UK-wide, but only two are Northern Ireland-based.

The Chairperson: That is very good of you; thank you very much for your time. Are members now content with the legislative consent motion and to consider a short draft report on that motion at next week's meeting?

Members indicated assent.