

**Committee for Enterprise Trade and Investment**

# Opportunity for Excellence

## The Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax – Volume One

Together with the Minutes of Proceedings of the Committee Relating to the Report,  
Written Submissions, Memoranda and the Minutes of Evidence

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# Membership and Powers

The Enterprise, Trade & Investment Committee is a Statutory Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 46. The Committee has a scrutiny, policy development and consultation role with respect to the Department for Enterprise, Trade & Investment and has a role in the initiation of legislation.

The Committee has power to:

- Consider and advise on Departmental Budgets and Annual Plans in the context of the overall budget allocation;
- Approve relevant secondary legislation and take the Committee stage of relevant primary legislation;
- Call for persons and papers;
- Initiate inquiries and make reports; and
- Consider and advise on matters brought to the Committee by the Minister for Enterprise, Trade & Investment.

The Committee has 11 members, including a Chairperson and Deputy Chairperson, and a quorum of five members.

The membership of the Committee is as follows:

Democratic Unionist Party	Paul Givan <sup>1</sup> William Humphrey <sup>2</sup> Gordon Dunne Paul Frew <sup>3</sup>
Green Party	Steven Agnew
Sinn Féin	Phil Flanagan (Deputy Chairperson) <sup>4</sup> Megan Fearon <sup>5</sup> Máirtín Ó Muilleoir <sup>6</sup>
Social Democratic & Labour Party	Patsy McGlone (Chairperson) <sup>7</sup> Fearghal McKinney <sup>8</sup>
Ulster Unionist Party	Danny Kinahan <sup>9</sup>

- 1 With effect from 16th September 2013 Mr Sydney Anderson replaced Mr Stephen Moutray. With effect from 1st December 2014 Mr Paul Givan replaced Mr Sydney Anderson.
- 2 With effect from 27 February 2012 Mr Paul Givan replaced Mr Robin Newton. With effect from 21 May 2012 Mr Robin Newton replaced Mr Paul Givan. With effect from 16 September 2013 Mr Sammy Douglas replaced Mr Robin Newton. With effect from 6th October 2014 Mr William Humphrey replaced Mr Sammy Douglas.
- 3 With effect from 24 October 2011 Mr Paul Frew replaced Mr David McIlveen.
- 4 With effect from 02 July 2012 Mr Phil Flanagan replaced Mr Daithí McKay as Deputy Chairperson.
- 5 With effect from 10 September 2012 Ms Maeve McLaughlin was appointed as a Member. With effect from 2nd December 2013 Ms Megan Fearon replaced Ms Maeve McLaughlin.
- 6 With effect from 23 January 2012 Ms Jennifer McCann replaced Ms Sue Ramsey. With effect from 10 September 2012 Ms Sue Ramsey replaced Ms Jennifer McCann. With effect from 21 October 2013 Mr Mitchel McLaughlin replaced Ms Sue Ramsey. With effect from 6th October 2014 Mr Chris Hazzard replaced Mr Mitchel McLaughlin. With effect from 10th November 2014 Mr Máirtín Ó Muilleoir replaced Mr Chris Hazzard.
- 7 With effect from 23 April 2012 Mr Patsy McGlone replaced Mr Alasdair McDonnell. With effect from 07 September 2012 Mr Patsy McGlone replaced Mr Alban Maginness as Chairperson. Mr Maginness rejoined the Committee as a member from 10 September 2012.
- 8 With effect from 7th October 2013 Mr Fearghal McKinney replaced Mr Alban Maginness.
- 9 With effect from 06 February 2012 Mrs Sandra Overend replaced Mr Mike Nesbitt. With effect from 4th July 2014 Mr Danny Kinahan replaced Mrs Sandra Overend.



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## List of Abbreviations and Acronyms used in the Report

AFQCC	– Agri-Food Quest Competence Centre
APD	– Air Passenger Duty
CBI	– Confederation of British Industry
CERFVS	– The Campaign for the Economic Regeneration of the Former Visteon Site
CPD	– Central Procurement Directorate
DARD	– Department of Agriculture and Rural Development
DEL	– Department for Employment and Learning
DETI	– Department of Enterprise, Trade and Investment
DFP	– Department of Finance and Personnel
DoE	– Department of the Environment
DRD	– Department for Regional Development
EAG	– Economic Advisory Group
EFG	– Enterprise Finance Guarantee
ERDF	– European Regional Development Fund
EU	– European Union
FDI	– Foreign Direct Investment
FE	– Further Education
FSB	– Federation of Small Businesses
GB	– Great Britain
GDP	– Gross Domestic Product
HE	– Higher Education
HMRC	– Her Majesty's Revenue and Customs
HR	– Human Resources
ICT	– Information and Communication Technology
ICTU	– Irish Congress of Trade Unions
IDA	– Industrial Development Agency
IoD	– Institute of Directors
kV	– Kilovolts
LDP	– Local Development Plan
LEA	– Local Enterprise Agency
MNI	– Manufacturing Northern Ireland
NI	– Northern Ireland
NICC	– Northern Ireland Chamber of Commerce
NIE	– Northern Ireland Electricity
NIEA	– Northern Ireland Environment Agency
NILGA	– Northern Ireland Local Government Association
PfG	– Programme for Government
R&D	– Research and Development
RAG	– Regional Aid Guidelines
RoI	– Republic of Ireland
SBRRS	– Small Business Rates Relief Scheme
SFA	– Selective Financial Assistance
SFT	– Scottish Futures Trust
SME	– Small and Medium Enterprise
STEM	– Science, Technology, Engineering and Mathematics
UCAS	– Universities and Colleges Admissions Service
UK	– United Kingdom
UU	– Ulster University
WRS	– Wirtschaftsförderung Region Stuttgart

# Executive Summary

## Overview

1. This report by the Committee for Enterprise, Trade & Investment considers the long-term development of the Northern Ireland economy from a strategic perspective. The report is the result of a wide-ranging inquiry covering, not only, the direct requirements to develop the economy and create jobs, but also how this can be integrated into an overall approach to economic development covering education, skills, physical and virtual infrastructure and society. The acceptance of the report recommendations represents an opportunity for Northern Ireland to achieve excellence in the development of the economy from now and over the next 20 years and beyond.
2. In his overall assessment of this report, the Committee Specialist Advisor on economic policy, the Open University's Dr Leslie Budd referred to it as thorough, comprehensive and coherent. He informed the Committee that the report represents good practice from which other regions can learn and apply its recommendations. He stated that the report:

*“...makes a major and significant contribution to understanding the challenges facing the economy and society of Northern Ireland over the longer term.”*

3. Dr Budd believes that, in its approach, the Committee has suggested policy instruments and mechanisms which can achieve the key objectives of the Inquiry.<sup>1</sup> As the objectives of the Inquiry focus on establishing the conditions which will help Northern Ireland realise its long-term economic potential, the Executive must examine the Committee's findings and recommendations in detail and consider where and how it can add to these to devise and implement an entirely holistic solution to secure Northern Ireland's long-term economic future. The Committee believes this opportunity for excellence must be grasped now.

## Background and Purpose of the Inquiry

4. There are two key assumptions in the Committee's Inquiry. The first is that corporation tax varying powers will be devolved to the Executive from April 2017. The second is that the Executive will agree to significantly reduce corporation tax rates for trading profits. The Committee is mindful that any reduction in corporation tax will result in a reduction to the block grant. It is therefore essential that any reduction in corporation tax brings the maximum benefits to the Northern Ireland economy both in relation to inward investment and growth of indigenous businesses.
5. The Committee undertook the Inquiry in order to examine the wider policy areas which have the potential to impact on economic development in general and on economic growth and job creation in particular. It is essential that Government policies are aligned to ensure that the most favourable conditions are in place to maximise the potential that a reduction in corporation tax can bring. If there is no decision to reduce corporation tax the priorities and focus for economic development will be different. However, it is worth noting that, even in the absence of a decision on the devolution of corporation tax, the recommendations in this report remain valid as they will contribute to economic growth and job creation regardless of the wider policy environment.

## Vision and Strategy for Economic Development

6. Evidence has demonstrated that there is much positive and constructive work being undertaken by Government departments, arms-length bodies and local government which is bringing benefit to the economy through supporting business growth and job creation. In some cases there are good examples of how policies demonstrate some level of integration where they impact on more than one department. Examples include the Economic Strategy,

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<sup>1</sup> Appendix 5: Specialist Advisor Comments on Inquiry Report

the Investment Strategy, the Regional Development Strategy and investment by the Department for Employment & Learning (DEL) in skills development in areas of key economic drivers. The new Apprenticeship Strategy currently being rolled out by DEL provides a good example of integration of skills with the identified needs of employers and the economy. However key business representative organisations such as the Confederation of British Industry (CBI), the Institute of Directors (IoD), the Federation of Small Businesses (FSB) and Manufacturing Northern Ireland (MNI) provided significant evidence to demonstrate that there is no overall long-term, strategic, integrated approach to economic development. A number of reviews have been undertaken which demonstrate some willingness by, and a need for, departments to further consider a more integrated approach to developing the economy and creating jobs. Important policy areas which need to be addressed include policies relating to the economy, employment, education, skills and physical and virtual infrastructure. The Committee believes that for any approach to economic development to become truly integrated will require a society and community dimension which considers factors such as government's role in society, work/life balance, leisure activities and financial considerations such as wages and salaries and cost of living.

7. Important factors which are inhibiting the potential to align policies to provide the most favourable conditions for long-term economic growth and job creation are firstly, that long-term policies within Executive departments often seem to be developed in isolation and with little consideration of the wider needs of other areas of government and, secondly, that policies are often developed within the five year Programme for Government (PfG) cycle with little regard for the potential strategic, long-term impact. Another important inhibiting factor is the absence of a strategic joined-up approach horizontally between Executive departments and vertically between regional and local government. Evidence to the Committee has demonstrated that there is little consideration given to any long-term vision for the economy and no agreed integrated strategic approach to long-term economic development. Evidence from a range of both public and private sector organisations has also demonstrated that there is no agreed approach, and little consideration given between departments or between different levels of government, to how policies, which directly or indirectly impact on the economy, can be integrated to bring the optimum level of benefit.
8. To address the issues identified will require a far-reaching change in outlook and approach from the Executive. The five-year Programme for Government (PfG) cycle will have to be strengthened with the development of a much longer-term strategic approach. The Executive should be able to look much further forward with a moderate degree of certainty to what the economic landscape of Northern Ireland will look like in 10-15 years' time and with some indication of what the economic landscape will look like beyond that period. By looking further forward, the Executive can put in place a PfG and Investment Strategy to, not only meet the short to medium-term economic development needs, but to work towards achieving Northern Ireland's long-term economic aspirations. However, to do so will require a long-term vision and a more strategic approach to planning for Northern Ireland's long-term economic future.
9. The development and implementation of a long-term vision and strategy will require appropriate structures and processes to be put in place. Expertise will be required from the business, skills, employees and community perspectives to ensure horizontal integration and from both regional and local government perspectives to ensure vertical integration. Long-term strategies which acknowledge the Executive's ranking of the economy as the number one priority will be have to be put in place for economy and employment; education and skills; infrastructure; and society and community. A framework for economic development will be required to develop and integrate these strategies to monitor implementation and to ensure they work together to support the overall vision and strategy for the economy.
10. It is important that existing good practices are not lost where they can be integrated into the overall approach to economic development. However, they should not be too heavily relied upon where it is clear that they cannot be appropriately integrated into the overall approach. Structures, policies and processes which are considered key to the implementation



of strategies within the economic development framework will have to be reviewed and prioritised to ensure they support the horizontal and vertical integration of the strategy for economic development across Northern Ireland. This strategic review should identify and ensure the retention of good practices where appropriate. It should also identify areas for improvement and gaps in provision. A strategic approach should be taken to integrating existing, improved and new structures, policies and processes into the overall framework for economic development.

11. The key recommendation of this Inquiry outlines an approach to developing, leading and implementing a Vision & Strategy for Economic development. The Committee's key recommendation is that **the Executive must articulate and implement a rolling 20-year shared Vision & Strategy for Economic Development. The vision and strategy can be renewed and updated through each Programme for Government period. There must be full integration between the strategy for the economic development and the Investment Strategy. The following actions will support the development and implementation of the Vision & Strategy for Economic Development:**
  - a. **In developing the Strategy for Economic Development, full consideration should be given to what can be achieved through the Investment Strategy at a time of reduced resources in order to complete those projects which have the greatest potential to positively impact on economic development.**
  - b. **A steering group should be established which includes representatives from all levels of government; education and skills sectors; and business, employee and community representative organisations. The steering group will have the role of developing and implementing the 'Vision & Strategy for Economic Development'.**
  - c. **The Strategy for Economic Development must be driven by a Regional Economic Development Framework with integrated strategies for economy & employment; education and skills; infrastructure; and society & community. Working groups comprising key stakeholders will be required to develop and monitor the implementation of strategies.**
  - d. **Organisational structures, policies and processes which are considered key to the future of the economy must be identified and prioritised. Those considered high priority should be strategically reviewed to ensure they provide the horizontal, vertical and geographical integration required to provide the Regional Economic Development Framework to drive the Strategy for Economic Development.**
  - e. **An overall strategy to achieve horizontal, vertical and geographical integration of priority policies and strategies should be developed and implemented to address identified gaps and to ensure the Regional Economic Development Framework is appropriate at all levels of regional and local Government and across all local authorities (Recommendation 1).**
12. The Executive's vision for the long-term position of Northern Ireland in the wider economic landscape is as yet unclear. This is not surprising given the current uncertainty relating to both European Union (EU) membership and the date and rate for corporation tax devolution. These are matters that must be addressed in order to develop any long-term vision for economic development. The Executive has little influence over the timing of a referendum however **in order to inform the debate on European Union membership, the Executive must provide a detailed analysis of the impact on the Northern Ireland economy of a UK exit from the European Union. This must be based on robust economic data. (Recommendation 2).**
13. The Executive has considerably more say on the rate at which corporation tax will be set following devolution. However the rate will be dependent on the cost to the Executive. This must be established before a rate can be set and a date agreed. Therefore **it is essential that the Executive works with HM Treasury to identify the overall cost of reducing**

**corporation tax so that it can get to a position where a rate and a date for devolution can be set at the earliest feasible opportunity (Recommendation 3).**

#### **Economic Development & Employment Strategy**

14. Government financial, and practical support for economic development are essential in developing and driving a vibrant economy. The accessibility of finance is essential for business as is access to both markets and suppliers. Business regulation is seen as an important factor in which improvements and support could bring considerable benefits to business. Innovation is seen as a key driver for economic development in the future. The sub-regional balance of economic development was also seen as key to developing the economy and creating jobs across all parts of Northern Ireland. These should all be key components of a future Economy & Employment Strategy. The development of the Economy & Employment Strategy must be supported by robust, long-term economic data at both regional and sub-regional level. The Department of Enterprise, Trade & Investment (DETI) and the Department of Finance & Personnel (DFP) must provide certainty that the economic data collected and presented is accurate, complete, timely and appropriate to the needs of the Economy & Employment Strategy. **In making any future economic decisions, including a decision on the devolved rate of corporation tax, DETI and DFP must be confident that the available economic data which is relied upon is robust, accurate, complete, timely and appropriate (Recommendation 4).**
15. Northern Ireland has, and will always have, a small internal market. Reliance on exports is, and will continue to be, a critical driver of economic competitiveness. Northern Ireland's export base has suffered in the past number of years and there have been calls for more support from Government to increase the capacity of the private sector to export, to open up new export market and to support and develop existing export markets. One key export market which has suffered considerably due to the economic downturn is the Republic of Ireland (RoI) market. The Department of Enterprise, Trade & Investment (DETI) believes its Export Plan will be a new and innovative approach. In consideration of the relationship between Northern Ireland both economically and geographically, **the Export Plan and other strategic and local economic development plans along with other strategies and plans relating to the economy and employment must fully consider the relationship between Northern Ireland and the Republic of Ireland in supporting economic development and job creation through maximising cross-border opportunities (Recommendation 5).**
16. The concept of enterprise zones has been put forward on a number of occasions over the years by a range of interested parties as a means of providing a structured approach to integrating support for economic development within a defined geographical area. It is only recently that the concept has been seriously considered and there are proposals in place for the establishment of the first Northern Enterprise Zone in Coleraine. The concept has been supported by a number of organisations giving evidence to the Committee and a range of proposals have been made for what should be included in an enterprise zone. These have related to taxation, rates, financial incentives, planning and infrastructure. The Committee welcomes the establishment of the first enterprise zone but sees it as an opportunity to explore the value of the concept. Therefore, **a plan should be put in place at the earliest opportunity to evaluate the Coleraine Enterprise Zone in order to consider if and how the Enterprise Zone concept can be rolled out to other areas across Northern Ireland in the future (Recommendation 6).**
17. Enterprise zones may be one way to start to address sub-regional imbalance in economic development. It is recognised both within and outside government that a regional prosperity gap exists and continues to grow between Belfast and other parts of Northern Ireland. This is apparent in areas such as skills, telecoms and physical infrastructure. Whilst these issues are considered in other sections of this report, it is important to also consider them from a sub-regional perspective. There is some working being undertaken by Invest NI to support sub-regional economic development but, as demonstrated during the Committee's visit to

the Stuttgart Region of Baden Württemberg in Germany, a properly integrated approach to economic development would provide the potential for a step change in approach. For Northern Ireland to integrate its approach to sub-regional economic development will require consideration of the roles, relationships and linkages between Invest NI, Enterprise NI, district councils and the local business community in each council area. There is much confusion, especially within Small and Medium Sized Enterprises (SMEs) relating to the nature and availability of support and advice and how to access it. Therefore, a review should be undertaken of the existing local provision of advice and practical support to businesses on issues such financial support, export advice, HR, finance, taxation, industrial relations, ICT and business regulation and plans put in place to improve and integrate provision where appropriate in line with business needs (Recommendation 7).

18. The Committee explored, with a number of witnesses, the possibility of Invest NI having sub-regional targets in place for job creation. The consensus from the business sector was that it would be difficult for Invest NI to identify realistic targets at local level. It is Invest NI's belief that it is responsible for setting targets for Northern Ireland as a whole and that local councils have a responsibility to establish a proposition for their region which Invest NI can use to promote Northern Ireland at sub-regional level. This would suggest that there should be more responsibility on local councils to develop propositions and set their own targets for job creation based on what they have to offer. **The Ministerial Sub-group on Economic Opportunities must work strategically with Invest NI and district councils to develop firm commitments to sub-regional economic growth and job creation. District councils should be encouraged to work with Invest NI to develop a proposition which Invest NI can use to promote the area. They should also be encouraged to take responsibility for deciding what is achievable and for setting targets for their council area following advice from Invest NI. (Recommendation 8).**
19. An important and increasingly critical factor in economic development is the level of innovation within an economy. It is currently considered a key priority and must remain a key priority in a future strategy for the economy. During their visit to Stuttgart, Committee members witnessed at first hand the support provided by the regional government for the development of competence centres for business clusters. Plans are in place to establish the first competence centre in Northern Ireland in the agri-food sector. This is an important development of a concept that may well be appropriate to other sectors. Therefore, **a plan should be put in place to evaluate the effectiveness of the Agri-Food Competence Centre and consideration should be given to how this model can be used as a pilot to assess the viability of future competence centres in other priority sectors identified through MATRIX and prioritised in the current Economic Strategy (Recommendation 9).**
20. DETI recognises that the ability of businesses to access finance has been particularly challenging in recent years. Both the Minister of Enterprise, Trade & Investment and the Minister of Finance & Personnel meet regularly with the main banks to emphasise the importance of supporting business development and growth. Issues have been identified in relation to branch closures and to the difficulties small companies face in finding their way through the complexities of how to access various forms of finance. Implementation of Recommendation 6 should go some way to addressing many of the issues identified by SMEs however it will not, in itself, resolve the problems faced by businesses in accessing finance through the banks. **In developing an Economy & Employment Strategy consideration must be given to how a step change in access to finance can be achieved and to how the Northern Ireland banking sector can become involved in working as partners in economic development (Recommendation 10).**
21. The volume, cost, time, and bureaucracy associated with, regulation is an issue for many businesses. Advice and support available to businesses, especially SMEs is disparate. Consideration should be given to developing a more consolidated approach to supporting businesses with regulation. This may form one aspect of the implementation of Recommendation 6. The way in which EU legislation is transposed in Northern Ireland was

of concern to a number of organisations providing evidence to the Committee. Unfavourable comparisons were made with other EU Member States and even with the Westminster Government in the way in which EU legislation is handled in Northern Ireland. The evidence to the Committee in this area was anecdotal however it is important that there is neither the perception nor the reality that EU legislation is unnecessarily burdensome in Northern Ireland compared to elsewhere. For this reason, **a review should be undertaken of how EU legislation is transposed in Northern Ireland, drawing on, and learning from, the experience of other EU Member States, to ensure that unnecessary burdens on business are eliminated and that future transposition of EU legislation has due regard to the costs to business associated with compliance (Recommendation 11).**

22. There were a number of issues raised in relation to the slow speed of planning decisions. The Department of the Environment informed the Committee that it is bringing forward a new strategic planning policy framework. It believes this will be more responsive to the priorities and needs of businesses and will provide a significant contribution to growing the economy. With the transition of responsibility for planning moving to the new district councils, consideration should be given to how this can be used as an opportunity to speed up and improve the planning system to support inward investment and the growth of indigenous businesses.

### **Infrastructure Strategy**

23. The existence of appropriate infrastructure across Northern Ireland is essential to growing the economy across the region. Infrastructure such as energy and water are utilities that many take for granted yet in some parts of Northern Ireland a lack of provision is inhibiting investment and forcing businesses to rethink their plans for investment. Northern Ireland is a largely rural region which means that transport infrastructure is essential both for businesses to access suppliers and markets and for enabling people to commute to places of employment. Northern Ireland has an increasingly improving telecommunications infrastructure with high-speed broadband now available to the majority of people and both 3G and 4G connectivity becoming increasingly available. However there still remain pockets of unavailability, sometimes in areas where businesses are located. The availability of appropriate accommodation for businesses to locate is also an important factor in supporting inward investment and business expansion.
24. The cost and availability of grid connections remains a major issue for many growing businesses, especially those wishing to expand operations outside Belfast. The cost of electricity compared to other regions, also remains a key issue for large energy users here. In developing an Infrastructure Strategy clarity must be provided in electricity policy both for large energy users in relation to what they can be expected to pay for electricity and for all businesses to provide assurances that they will be able to access a timely affordable connection. The next price control period will provide an opportunity to improve the integration of electricity policy with economic development. It is important that the electricity infrastructure is in place to meet current and future expected demand. A more strategic approach as part of an Infrastructure Strategy within a wider Economic Development Framework should help reduce the risk of stranded assets. **As part of the development of the Infrastructure Strategy DETI should revisit the recommendations in the Committee for Enterprise, Trade & Investment reviews on electricity pricing and grid connections to ensure that policies for grid infrastructure and electricity costs are structured to support current and future economic development (Recommendation 12).**
25. There were some issues expressed in relation to water infrastructure, especially in the Belfast area. Any existing or potential restriction on future economic development as a result of inadequacies in drainage infrastructure must be addressed as a priority. If, as was suggested to the Committee, NI Water is 30% less efficient than a comparable company in Great Britain (GB), inefficiencies must be quantified and addressed.

26. The mix of employment across Northern Ireland will influence transport infrastructure requirements and conversely, the transport infrastructure that is in place will influence the ability of businesses to attract employment. Development of a transport infrastructure strategy will have to consider connectivity of key transport routes to provide access to markets and suppliers for businesses and access to work for employees. The strategy should include accessibility of ports and airports and the cost of travel by air and sea. The Executive will have to consider how to achieve the most appropriate balance of public transport and private transport to meet the needs of businesses, employees and communities.
27. The roll-out of broadband is progressing as is the roll-out of 4G across Northern Ireland. It is generally accepted that Northern Ireland is well served compared to other regions however many areas of poor connectivity remain. Improvement in both broadband and mobile communications must remain a priority for the Executive. Consideration should be given to not only expanding broadband speed but expanding broadband access across the region.
28. One of the key considerations for future economic development following the devolution of corporation tax will be the availability of accommodation for those businesses attracted to invest in Northern Ireland. Invest NI is taking steps to address the shortage of Grade A office accommodation and this is to be welcomed. However, consideration should be given to how appropriate office accommodation and workspace can be made available across Northern Ireland so that inward investors are not attracted to Belfast solely on the basis that appropriate accommodation is unavailable in other areas. The appropriateness of any accommodation will be linked to the availability of other key infrastructure such as transport infrastructure, electricity infrastructure and transport networks as well as links to skills and other support services. Consideration should also be given to how more creative solutions can be developed to address the facilities in existing buildings to make them Grade A quality rather than merely incentivising the construction of new builds.

### **Education & Skills Strategy**

29. The development of education and skills is a crucial element to developing a growing and vibrant economy. If a long-term vision for economic development is to be achieved, it is essential that the development of the current and future skills needs of businesses is fully integrated into the Economic Development Strategy. This, in turn, will require a holistic approach within the education and skills sector from primary school, through secondary education and into the further or higher education sector and the world of apprenticeships and work.
30. The secondary education sector has a vital role to play in preparing young people for adulthood and work. It is essential that young people in school develop a knowledge and understanding of the options and opportunities that will be available to them when they leave. For example, with 40% of employers in Northern Ireland reporting or anticipating problems in recruiting experienced people with science, technology, engineering and mathematics (STEM) skills, it is important that young people are made aware at an early age of the opportunities open to them in these sectors. In the past there Northern Ireland has had a high dependence on public sector employment but Northern Ireland cannot continue to focus the education of young people in skills which are more suited to the public sector if the long-term plan is to reduce the public sector and grow the private sector. There have been a number of suggestions for how schools can influence the choices of young people including increasing provision of skills in STEM subjects, business, computer programming and entrepreneurship. There have been calls to increase the number and influence of business people on boards of governors in schools in order to promote the private sector and help highlight opportunities. DETI believes there is more scope to work with the Department of Education to influence curriculum policy, careers education and the thinking of parents on the career choices being considered by their children. The Stuttgart Region has integrated education and business needs through the provision of long-term workplace experiences for school pupils as part of

their learning. There will have to be consideration of what the best approach is for Northern Ireland to integrate education with business needs.

31. Any initiatives in schools will have to be complemented by the Further Education (FE) and Higher Education (HE) sectors. If young people are to be encouraged to pursue routes where skills are in most demand by employers, the FE and HE sectors must ensure that sufficient places on appropriate courses focusing on the development of those skills are available in universities and FE colleges. There were calls for better and closer collaboration between Invest NI/DETI and the higher and further education sectors to form more direct strategic and operational links to better match employer needs with skills delivery. A number of those giving evidence to the Committee would like to see better targeting of courses to the needs of business and potential investors. The higher and further education sectors play a vital role in developing the skills that businesses will need. It is of paramount importance that existing gaps are closed between the skills being developed in universities and FE colleges and existing and potential employment opportunities. The provision of incentives for students to study subjects where demand is high should be considered. Consideration should be given to how the private sector can be encouraged to participate in such initiatives. Any future strategy for education and skills should look at how a systematic plan can be developed to target skills to investment in order to create employment. To this end, **a structured mechanism should be put in place for collaboration at a strategic level between the HE and FE sectors and Invest NI to ensure the best alignment between skills and current and future investment in both the short-term and long-term (Recommendation 13).**
32. There were calls for the profile of apprenticeships to be enhanced to make this a more acceptable career path for a wider range of professions. The Committee agrees that apprenticeships are an important element of growing the economy and creating jobs. The apprenticeship route a very worthwhile option for any individual considering a career path to a professional qualification. The Committee can see the value of allowing employers to develop apprenticeships in sectors where there is a demand for skills. Care must be taken to ensure that apprenticeships focus on skills that can lead to sustainable employment for individuals involved. **The future of apprenticeships should focus on skills that lead to sustainable employment through the ongoing development of the new employer-led Apprenticeship Strategy in sectors of high demand (Recommendation 14). The new employer-led Apprenticeship Strategy must be promoted and driven to raise awareness of the value and benefits of this route to employment regardless of age or gender. Public procurement and the use of social clauses can contribute (Recommendation 15).**
33. Many individuals and companies will seek to grow and enhance their skills base in a wider range of areas. There have been calls for support through the education system to improve business support skills such as human resources, finance and health & safety, language skills, ICT skills as well as management, leadership and entrepreneurial skills. Consideration should be given to how this can be achieved through all stages of education and training and in the workplace to support life-long learning. There is also a need to consider how up-skilling and re-skilling can be undertaken to help people to get into employment and to progress. It will also be important to distinguish between skills gaps which are structural in nature and skills shortages which are cyclical. Skills shortages can be addressed by increasing provision of appropriate education and training. Skills gaps are more difficult to address as this involves putting in place mechanisms to educate and train people in the appropriate skills.

#### **Society & Community Strategy**

34. The Committee recognises that, whilst the economy is the number one priority for the Executive, this must be considered very much within the context of the society and communities in which we live. The needs of the economy must be balanced with the needs of people in order to provide a fair and just society. The focus of this Inquiry was on the development of the economy. Further work will need to be undertaken to further consider the requirements for a Society and Community Strategy. Important strands in the Society &

Community Strategy will include considerations such as government's role in society, work/life balance, leisure activities and financial considerations such as wages and salaries and cost of living.

# Summary of Recommendations

## Vision & Strategy for Economic Development

### **Recommendation 1**

The Executive must articulate and implement a rolling 20-year shared Vision & Strategy for Economic Development. The vision and strategy can be renewed and updated through each Programme for Government period. There must be full integration between the strategy for the economic development and the Investment Strategy. The following actions will support the development and implementation of the Vision & Strategy for Economic Development:

- a. In developing the Strategy for Economic Development, full consideration should be given to what can be achieved through the Investment Strategy at a time of reduced resources in order to complete those projects which have the greatest potential to positively impact on economic development.
- b. A steering group should be established which includes representatives from all levels of government; education and skills sectors; and business, employee and community representative organisations. The steering group will have the role of developing and implementing the 'Vision & Strategy for Economic Development'.
- c. The Strategy for Economic Development must be driven by a Regional Economic Development Framework with integrated strategies for economy & employment; education and skills; infrastructure; and society & community. Working groups comprising key stakeholders will be required to develop and monitor the implementation of strategies.
- d. Organisational structures, policies and processes which are considered key to the future of the economy must be identified and prioritised. Those considered high priority should be strategically reviewed to ensure they provide the horizontal, vertical and geographical integration required to provide the Regional Economic Development Framework to drive the Strategy for Economic Development.
- e. An overall strategy to achieve horizontal, vertical and geographical integration of priority policies and strategies should be developed and implemented to address identified gaps and to ensure the Regional Economic Development Framework is appropriate at all levels of regional and local Government and across all local authorities.

Additional recommendations below are designed to support the development and implementation of Recommendation 1 and the achievement of the long-term vision and strategy.

## Political Certainty

### **Recommendation 2**

In order to inform the debate on European Union membership, the Executive must provide a detailed analysis of the impact on the Northern Ireland economy of a UK exit from the European Union. This must be based on robust economic data (Recommendation 2).

### **Recommendation 3**

It is essential that the Executive works with HM Treasury to identify the overall cost of reducing corporation tax so that it can get to a position where a rate and a date for devolution can be set at the earliest feasible opportunity.



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## Support for Economy & Employment

### **Recommendation 4**

In making any future economic decisions, including a decision on the devolved rate of corporation tax, DETI and DFP must be confident that the available economic data which is relied upon is robust, accurate, complete, timely and appropriate.

### **Recommendation 5**

The Export Plan and other strategic and local economic development plans along with other strategies and plans relating to the economy and employment must fully consider the relationship between Northern Ireland and the Republic of Ireland in supporting economic development and job creation through maximising cross-border opportunities.

### **Recommendation 6**

A plan should be put in place at the earliest opportunity to evaluate the Coleraine Enterprise Zone in order to consider if and how the Enterprise Zone concept can be rolled out to other areas across Northern Ireland in the future.

### **Recommendation 7**

A review should be undertaken of the existing local provision of advice and practical support to businesses on issues such financial support, export advice, HR, finance, taxation, industrial relations, ICT and business regulation and plans put in place to improve and integrate provision where appropriate in line with business needs.

### **Recommendation 8**

The Ministerial Sub-group on Economic Opportunities must work strategically with Invest NI and district councils to develop firm commitments to sub-regional economic growth and job creation. District councils should be encouraged to work with Invest NI to develop a proposition which Invest NI can use to promote the area. They should also be encouraged to take responsibility for deciding what is achievable and for setting targets for their council area following advice from Invest NI.

### **Recommendation 9**

A plan should be put in place to evaluate the effectiveness of the Agri-Food Competence Centre and consideration should be given to how this model can be used as a pilot to assess the viability of future competence centres in other priority sectors identified through MATRIX and prioritised in the current Economic Strategy.

### **Recommendation 10**

In developing an Economy & Employment Strategy consideration must be given to how a step change in access to finance can be achieved and to how the Northern Ireland banking sector can become involved in working as partners in economic development.

## Business Regulation

### **Recommendation 11**

A review should be undertaken of how EU legislation is transposed in Northern Ireland, drawing on, and learning from, the experience of other EU Member States, to ensure that unnecessary burdens on business are eliminated and that future transposition of EU legislation has due regard to the costs to business associated with compliance.

## Infrastructure

### **Recommendation 12**

DETI should revisit the recommendations in the Committee for Enterprise, Trade & Investment reviews on electricity pricing and grid connections to ensure that policies for grid infrastructure and electricity costs are structured to support current and future economic development.

## Education & Skills

### **Recommendation 13**

A structured mechanism should be put in place for collaboration at a strategic level between the HE and FE sectors and Invest NI to ensure the best alignment between skills and current and future investment in both the short-term and long-term.

### **Recommendation 14**

The future of apprenticeships should focus on skills that lead to sustainable employment through the ongoing development of the new employer-led Apprenticeship Strategy in sectors of high demand.

### **Recommendation 15**

The new employer-led Apprenticeship Strategy must be promoted and driven to raise awareness of the value and benefits of this route to employment regardless of age or gender. Public procurement and the use of social clauses can contribute.

# Introduction

## Background

1. Following the announcement by the Secretary of State for Northern Ireland in January 2015 that the Westminster Government would introduce a bill to devolve corporation tax varying powers to Northern Ireland from April 2017, the Committee considered it an appropriate time to consider the implications of a reduction in corporation tax on Northern Ireland business, the economy and jobs.
2. The Inquiry was undertaken on the assumptions that corporation tax varying powers will be devolved to Northern Ireland from April 2017 and, devolution will result in corporation tax rates for trading profits being reduced considerably from current levels. The Committee is mindful that a reduction in corporation tax will impact on the Northern Ireland block grant and recognises the importance of future economic growth and job creation in mitigating these impacts. It is not the intention of the Committee to consider issues specifically relating to the rate at which corporation tax will be set following devolution or the impact of reducing corporation tax on the Northern Ireland block grant. These are issues which fall within the remit of the Committee for Finance & Personnel.
3. There is a period of almost two years in which the Executive can prepare for the impact of reduced corporation tax. Central to the Inquiry is how this time can be used to work towards maximising the potential of Northern Ireland as a region to attract investment, grow businesses and create jobs across the region. The Committee recognises that any multi-national business seeking to invest internationally will be attracted to a region with favourable taxation rates, but the Committee also recognises that other countries and regions offer low rates of taxation. The key focus for the Committee will be on the other drivers of economic growth which Northern Ireland must have in place to favourably differentiate its offer from other countries and regions. Not least of which is the importance of existing and future capacities and capabilities within Northern Ireland both as attractors of inward investment and as a support mechanism for future indigenous business growth and job creation. This includes providing the appropriate environment and incentives to promote and develop a balance of inward investment across Northern Ireland.
4. The outcomes of the Inquiry are intended to inform the Executive and help prioritise actions within a tight budget environment to maximise the potential of Northern Ireland for economic growth and job creation in an environment of reduced corporation tax.

## Terms of Reference for the Inquiry

5. The Inquiry examines the current position in Northern Ireland as a whole as a region for investment, economic growth and job creation in the context of a reduced rate of corporation tax from 2017. It considers the key determinants of investment currently in place both within Northern Ireland as a whole and sub-regionally. The Inquiry identifies areas for improvement and makes recommendations on how these can be addressed in both the short-term and long-term to maximise the potential of Northern Ireland as a region to attract inward investment, grow its economy and create jobs.
6. Specifically, the Inquiry set out to:
 

Identify the key determinants of inward investment and economic growth which Northern Ireland must have in place in order to attract investment, grow the economy and create jobs;

  - Identify the current gaps that exist in Northern Ireland in relation to the key determinants;
  - Prioritise the areas for improvement to address the gaps in provision in relation to the key determinants; and

- Make recommendations for actions to be taken in order to address the prioritised gaps in provision.

**Committee Approach to the Inquiry**

7. An important focus for the Committee is on how the key drivers for economic development are aligned to the areas which have been targeted in MATRIX and in the Economic Strategy as having the greatest potential for economic growth. Namely:
  - Telecommunications and ICT
  - Life & Health Sciences
  - Agri-food
  - Advanced Materials
  - Advanced Engineering
8. The Committee did not however limit the Inquiry to looking solely at these areas but also focused on the wider aspects of economic development and the important linkages to the rest of the economy.
9. The Committee issued a call for evidence in the local press and sought evidence from identified key stakeholders. A survey was also issued and this attracted more than 200 responses from business of all sizes and sectors right across Northern Ireland.
10. The Committee and its members undertook informal meetings and visits, as appropriate, to gain a practical understanding of the issues involved and the problems faced by key stakeholders.
11. Assembly Research was commissioned into a number of key issues associated with the Inquiry. The research papers are included at Appendix 4.
12. Those providing written evidence to the Committee and those completing the survey were asked to respond by 10th March 2015. Oral evidence was taken between 17th February 2015 and 9th June 2015. The Committee report to the Assembly was agreed on 23rd June 2015.

# Key Issues and Findings

## Government Support to Business

### Strategic Alignment of Government Support

13. A consistent theme across many contributors to the Inquiry is the view that individual Government departments are not as integrated as they should be in their approach. There is evidence that, in many areas of Government policy, attempts have been made to join and integrate complementary policies. However, despite the fact that the economy is the Executive's number one priority, there are many areas of policy where this is not happening. There is considerable evidence to demonstrate that there is no overall approach at Executive level to integrate policies between departments which may impact on key areas of economic development.
14. There were numerous calls for a more joined-up approach and greater collaboration between departments at a strategic level if we are to make the most of the opportunities that devolved corporation tax can bring. Examples were as follows:

*"There is considerable need to develop more joined-up delivery of services."*<sup>2</sup> (Institute of Directors)

*"The reform of government departments must enable a more strategic, joined-up government if we are to get the policy landscape properly aligned to meet the needs of indigenous and new global investors and ensuring we have an integrated economic strategy that embraces all departments."*<sup>3</sup> (Confederation of British Industry)

*"If we take the subject of driving the economy and corporation tax in particular, there needs to be a joined-up approach for maximising that opportunity. That is, fundamentally, what we are calling for."*<sup>4</sup> (Northern Ireland Chamber of Commerce)

*"There are areas where there is overlap across departments but there is not necessarily connection across those departments, which will be critical to maximising the benefit that corporation tax setting will actually bring."*<sup>5</sup> (Manufacturing NI)

*"The issues are interconnected, and that comes back to having joined-up government and joined-up thinking"*<sup>6</sup> (Federation of Small Business)

*"There should be a coherence across government in driving a growth agenda."*<sup>7</sup> (Department of Agriculture & Rural Development)

*"Many of the economic drivers are all well developed in their own right, however the bigger issue for government is how they connect and join up."*<sup>8</sup> (Newry & Mourne District Council)

*"Silos must be broken down and a new approach adopted to how growth and jobs are delivered embraced."*<sup>9</sup> (Mid & East Antrim Borough Council)

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- 2 Appendix 3: IoD Written Submission  
 3 Appendix 3: CBI Written Submission  
 4 Appendix 2: NICC Oral Evidence  
 5 Appendix 2: MNI Oral Evidence  
 6 Appendix 2: FSB Oral Evidence  
 7 Appendix 3: DARD Written Submission  
 8 Appendix 3: Newry & Mourne District Council Written Submission  
 9 Appendix 3: Mid & East Antrim Borough Council Written Submission

15. There were calls for a clear vision from Government for the economy,<sup>10</sup> a cross-cutting, all-encompassing strategy,<sup>11</sup> more streamlined, simplified and agile processes for government support<sup>12</sup> and the establishment of a cross-cutting committee to facilitate the creation of fast tracking processes.<sup>13</sup> The CBI has significant concerns in relation to what it calls “*the ongoing silo mentality*” within government policy and actions. It believes the Executive fails to consistently unify on key decisions and properly align various cross-government issues. It considers it a major task for government in the next two years to get the policy landscape right on key areas such as education, skills and infrastructure prioritisation. According to the CBI, the next Programme for Government (PfG) and budget agreements must include an integrated economic strategy which reflects a strategic joined-up approach to government.<sup>14</sup> Representatives acknowledged that the PfG must focus on the five years of a mandate and called for fewer key ambitious outcomes in the Programme. They also called for a long-term vision in an effective, integrated, outcome focused economic strategy as a front piece of a Programme for Government. They consider it critical that the strategic vision goes well beyond the PfG period. The CBI suggested that such a vision would address key factors such as skills, infrastructure and innovation and would address social inclusion.<sup>15</sup>
16. Grow NI believes the ability to consolidate processes for business registration and offer this as a selling point for Foreign Direct Investment (FDI) would greatly enhance the attractiveness of locating in Northern Ireland.<sup>16</sup> It states that, whilst it is clear that some government departments are focused on FDI, this is not the case for other departments. They consider it appropriate to form a cross-cutting committee of all relevant government departments with the objective of streamlining the number of interactions that inward investors need to have with government departments and creating a clear pathway implementing requirements and resolving problems. They would like to see this Committee having contact points with all local councils. They consider it appropriate for each local council to appoint a liaison officer who would facilitate the necessary registration and regulation requirements for businesses coming to a locality.<sup>17</sup> The Irish Congress of Trade Unions (ICTU) would like to see a national council formed, involving elements of the trade unions, on social and economic development. The organisation sees this as a viable alternative to the devolution of corporation tax.<sup>18</sup>
17. Calls for a more joined up approach embraced all relevant areas of government including business regulation, education, energy, financial support for business, infrastructure, practical support for business and training & skills. There were calls for better integration of support at sub-regional level for manufacturing, for start-ups and for SMEs. Issues are outlined in more detail below.
18. A Committee stakeholder event to consider key issues emerging from the Inquiry also highlighted the need for a more joined-up approach to government support for economic development. Participants noted that, while a range of support is available, it is fragmented across departments and agencies. Delegates felt that the devolution of powers to councils from April 2015 will make the integration of government support for economic development even more challenging. It was felt that the most significant problem in accessing any form of support from government for business is inadequate signposting. There was consensus that a properly functioning practical support network should:
- Offer a continuum of support to businesses;

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10 Appendix 3: IoD Written Submission

11 Appendix 2: MNI Oral Evidence

12 Ibid

13 Appendix 3: Grow NI Written Submission

14 Appendix 3: CBI Written Submission

15 Appendix 2: CBI Oral Evidence

16 Appendix 3: Grow NI Written Submission

17 Appendix 5: Grow NI Response to Committee Queries

18 Appendix 2: ICTU Oral Evidence

- Have local councils acting as an entry point for businesses; and
  - Have local councils providing support that meets requirements or directs businesses towards more appropriate sources of assistance.<sup>19</sup>
19. In recognition of the need to have accurate, timely and complete economic data on which to base key decisions relating to the economy, the Committee received oral evidence from the Northern Ireland Statistics & Research Agency (NISRA).<sup>20</sup> In an effort to improve economic data in Northern Ireland NISRA is assessing the feasibility of developing Input-Output Tables. NISRA considers these a key element of the system of economic accounts used to measure the performance of an economy to international standards. NISRA's aim is to produce the capacity and expertise to enable a full set of Economic Accounts to be produced similar to that in Scotland.<sup>21</sup>
20. The economic development corporation of the Stuttgart Region of Baden-Württemberg in Germany, known as *Wirtschaftsförderung Region Stuttgart* (WRS), is the region's equivalent of Invest NI. During a visit to the region, the Committee delegation learned that the region provides a number of examples of an integrated approach to economic development. This is evident in both a vertical and horizontal basis. Vertical integration exists in the form of cooperation between the various tiers of government and between WRS and the municipalities (local councils) and counties. Horizontal integration is evident in the way in which policy levers available to the regional government are focused and targeted towards enhancing economic development. This can be seen in functions such as planning, transport, skills and education.<sup>22</sup> ICTU believes that part of the success of German regions results from the high degree of federalism and autonomy within each state, the existence of clusters of specialisation and the high degree of involvement of workers' representatives in the decision-making process.<sup>23</sup>

#### **Sub-Regional Balance in Economic Development**

21. The Department for Regional Development recognises that a regional prosperity gap exists, and continues to widen, between Belfast and other parts of Northern Ireland. It states that it is important to acknowledge that all successful regions have vibrant connected cities at their core.<sup>24</sup> The Department of Agriculture and Rural Development believes that balanced growth across the region should be a key objective.<sup>25</sup> The NI Chamber of Commerce believes it is important to create the foundation for growth right across Northern Ireland in order to address regional imbalance. It believes this must include areas such as skills, telecommunications and infrastructure. It considers incentives such as enterprise zones a useful approach to help create opportunities.<sup>26</sup> The Northern Ireland Local Government Association (NILGA) believes that, with the transfer of new local economic development roles and powers to councils, more can be done jointly between the Executive and local authorities to gain momentum over the coming months. NILGA believes that the Executive working partnership with local authorities is critical to balancing the Northern Ireland economy.<sup>27</sup>
22. Dr Leslie Budd, Specialist Advisor to the Committee informed members that in rebalancing the economy, spatial, or geographical, rebalance must be looked at. He stated that there is

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19 Appendix 4: Committee – Stakeholder Event  
 20 Appendix 2: NISRA Oral Evidence  
 21 Appendix 3: NISRA Written Evidence  
 22 Appendix 4: Committee – Stuttgart Visit  
 23 Appendix 3: ICTU Written Submission  
 24 Appendix 3: DRD Written Submission  
 25 Appendix 3: DARD Written Submission  
 26 Appendix 2: NICC Oral Evidence  
 27 Appendix 5: NILGA Response to NI Draft Budget 2015-2016

a danger that spatial inequalities have the potential to reduce growth in the economy as a whole. He believes incentives for spatial rebalancing are required.<sup>28</sup>

23. The Committee explored the possibility of Invest NI having sub-regional targets in place for job creation. The Northern Ireland Chamber of Commerce believes that, although targets may be achievable in some areas, other areas are starting from a low business base. They believe therefore that setting a target for each council area would be difficult.<sup>29</sup> The Federation of Small Businesses (FSB) also has reservations about the creation of targets at a sub-regional level. It believes it may lead to the creation of inequalities between neighbouring councils.<sup>30</sup> Invest NI has concerns that setting targets at a sub-regional level will take the focus off Northern Ireland as a whole and may stimulate a situation where opportunities would be missed because they cannot be secured for Northern Ireland as a whole.<sup>31</sup> Invest NI believes there are both push and pull dimensions to sub-regional economic development. Invest NI informed the Committee that councils, with Invest NI support, need to decide how they can differentiate their areas and put together a proposition that takes into account the existing anchor tenants, infrastructure, connections through FE colleges and universities and skills supply. This can be used to make a unique selling proposition for an area. Invest NI has informed each of the new councils that, if they develop and refine that, Invest NI will take that proposition and promote it to try to match it with what a potential investor is looking for. Invest NI believes this will make it easier for them to secure the project for Northern Ireland.<sup>32</sup> This is the approach now taken by the Industrial Development Agency (IDA) in the RoI. In its 2013 Annual Report, the IDA stated that it markets each region individually and works with local stakeholders to build a compelling proposition for each using a partnership approach with local stakeholders. This follows a strategy to set and achieve specific targets to attract 50% of inward investment to regions outside of Dublin and Cork between 2010 and 2014. Although the strategy, which did not include targets for jobs outside of Dublin and Cork, did demonstrate some improvement regionally in both jobs and investment, it fell short of the targets set.<sup>33</sup>
24. Invest NI informed the Committee of the activities it is currently undertaking and will continue to undertake across Northern Ireland under the European Regional Development Fund Programme (ERDF). This includes projects, undertaken by councils to create and enhance the economic development of businesses within their local authority areas. Support is provided for business mentoring, providing best practice advice and guidance to existing small businesses leading to improved business efficiencies and encouraging entrepreneurs to start new businesses. Invest NI will also deliver workshops to council officials and Fund Managers responsible for loans and equity made available under Access to Finance. It has already provided, and will continue to provide, workshops to showcase support available through its Grant to Research & Development (R&D) and wider innovation support. Invest NI is currently rolling out a series of R&D Advice Clinics in five locations and will be recruiting a Marketing Officer specifically to enable Invest NI to promote the use of equity and loans throughout Northern Ireland.<sup>34</sup> Despite the focus on local government level by Invest NI, NILGA has concerns that the continued withdrawal of project grants and the increased threat of cuts to the core council grant will not help councils to invest in SMEs or local economies at a time when this responsibility is being transferred to them.<sup>35</sup>

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28 Appendix 2: Dr Leslie Budd Oral Evidence

29 Appendix 2: NICC Oral Evidence

30 Appendix 2: FSB Oral Evidence

31 Appendix 2: DETI/INI/ITI Oral Evidence

32 Ibid

33 Appendix 4: IDA Ireland: Regional Targets and Policy Measures

34 Appendix 5: 2014-2020 NI ERDF: Committee Briefing

35 Appendix 5: NILGA – Northern Ireland Fiscal Powers Note



25. During its visit to the Stuttgart Region of Baden-Württemberg in Germany the Committee delegation was impressed by the sub-regional approach to supporting inward investment and internal relocation and expansion. A key element of the work of WRS in the Stuttgart Region is to help companies find appropriate sites for their needs. WRS works closely with municipalities, participates in knowledge and experience exchanges with business developers at municipal level and consults municipalities on commercial development needs. WRS works closely with the planning function but is not involved in real estate negotiations. These take place at local level. When it receives an investment lead, WRS passes these to cities and counties where they are given an opportunity to propose a site solution. Investors retain control over where they locate. For example, if a company is specifically seeking a location in the southern part of the region, WRS will not pass the lead to municipalities in the northern part of the region.<sup>36</sup>
26. WRS is a partner within a cooperative national and state-level structure. At national level, German Trade & Industry operates internationally, engaging in investment and acquisition and marketing. Baden-Württemberg International, the Federal investment agency, also operates internationally but with a more specific state focus.<sup>37</sup>

### **Support for SMEs**

27. The FSB cited a 2008 audit of enterprise support which identified more than 200 separate sources of available advice or support. It states that it is unrealistic to expect a small business with fewer than 10 employees to access all the available sources and identify which would be most appropriate to its individual business needs. The organisation calls for the establishment of small business advice centres which would enable business to call in or telephone to obtain advice on a wide variety of issues such as business support, training and skills, innovation, R&D, exporting, employment, workplace disputes mediation, finance and procurement. It believes such centres could act as hubs for promoting sources of advice and support, signposting to current provision and gathering information on up-take and demand.<sup>38</sup> NI Chamber of Commerce believes there is a gap between start-up businesses and those with full access to Invest NI's suite of products and services. For those in between, it believes support is confused. NI Chamber calls for a Northern Ireland wide development programme to help those indigenous businesses to grow.<sup>39</sup> In oral evidence to the Committee, Invest NI reminded members that a small business advice unit exists in Invest NI. The Business Support Team is the single point of contact for all inbound inquiries excluding those clients who are account-managed. All others access Invest NI through text, the website or telephone to the Business Support Team.<sup>40</sup>
28. As considered previously, support offered by Invest NI under the ERDF programme is focused on SMEs and start-ups. In addition, in May 2015 the Minister of Enterprise, Trade & Investment launched the Start Planet NI Accelerator initiative which is designed to help high potential start-ups access early stage support and investment. Invest NI has contributed £2.6 million to establish the accelerator.<sup>41</sup>

### **Support for Exports**

29. A number of respondents to the Inquiry commented on the need to improve and increase support for companies to export. The Department of Agriculture & Rural Development (DARD) commented on the small size of the domestic market and the resulting critical need to grow

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36 Appendix 4: Committee Stuttgart Visit

37 Ibid

38 Appendix 3: FSB Written Submission

39 Appendix 2: NICC Oral Evidence

40 Appendix 2: DETI/INI/ITI Oral Evidence

41 Appendix 5: DETI Press Release – Bell Launches Accelerator Support for High Potential Start-ups

exports.<sup>42</sup> NI Chamber of Commerce highlighted the fact that Northern Ireland currently has a small export base with fewer than 1,600 goods exporters. Representatives also drew the Committee's attention to the high dependency on a small number of large exporters with half of manufacturing exports being accounted for by only 10 companies.<sup>43</sup> Mid-Ulster District Council agrees that there is a need to increase the capacity of the private sector to export.<sup>44</sup> NI Chamber of Commerce recognises that there is some good support available for exporters, particularly existing exporters. It believes there are lessons to be learnt from the support available to potential exporters in the RoI. The organisation also commented that the Northern Ireland export base has suffered because of the heavy reliance on sales to the RoI.<sup>45</sup> Invest NI informed the Committee that, if the majority of exports are to countries such as the RoI, this is one of the areas that should continue to grow.<sup>46</sup>

30. NI Chamber of Commerce believes that, in the long-term there should be an increased budget for export support as it is essential to economic growth.<sup>47</sup> DARD supports the view that Government has a key role to play in facilitating trade, in opening new export markets and trade routes and in supporting the retention of existing export markets.<sup>48</sup> DETI states that the NI Economic Strategy recognised the need to build on existing strengths and exploit new opportunities. In written evidence the Department stated that growing the competitiveness of the Northern Ireland economy through a focus on export-led economic growth would remain a priority.<sup>49</sup> DETI believes its Export Plan will be a new and innovative approach. In order for it to succeed, DETI believes a collaborative partnership approach will be required across central and local government, companies and their workforce in all sectors. The Department aims to elevate the importance of exports in local economic development plans through this partnership approach and make exports the key indicator of regional economic performance.<sup>50</sup>

### Public Procurement

31. The Institute of Directors (IoD) believes public sector procurement is an important lever with a strong multiplier effect in the wider economy. The IoD expressed a number of concerns about what it considers the adverse impact of procurement regulation on local business.<sup>51</sup> In oral evidence, representatives outlined issues relating to what they consider a 'one size fits all' mentality in Central Procurement Directorate (CPD); a lack of specialists; a lack of expertise; a lack of appropriate controls and monitoring of procurement contracts. CPD representatives also informed the Committee that the Northern Ireland interpretation of EU legislation on procurement is not consistent with that in the rest of the UK which has placed local businesses at a disadvantage.
32. The IoD would like to see a better balance of public sector and private sector knowledge and expertise brought into procurement.<sup>52</sup> The NI Chamber of Commerce would like to see steps taken to increase SME participation in procurement. The organisation believes it should be easier for consortia to compete for larger public sector contracts by removing the hurdles that exist for SMEs to get together and bid.<sup>53</sup> The CBI agrees that procurement needs to

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42 Appendix 3: DARD Written Submission  
 43 Appendix 2: NICC Oral Evidence  
 44 Appendix 3: Mid-Ulster District Council Written Submission  
 45 Appendix 2: NICC Oral Evidence  
 46 Appendix 2: DETI/INI/ITI Oral Evidence  
 47 Appendix 2: NICC Oral Evidence  
 48 Appendix 3: DARD Written Submission  
 49 Appendix 3: DETI Written Submission  
 50 Ibid  
 51 Appendix 3: IoD Written Submission  
 52 Appendix 2: IoD Oral Evidence  
 53 Appendix 2: NICC Oral Evidence

improve stating that a paper on infrastructure procurement and delivery reform was presented to the Executive Sub-Group on Infrastructure in the summer of 2014. The CBI believes that all Executive parties should buy into its principles and support its potential outcomes.<sup>54</sup> ICTU would like to see procurement used as a tool to tackle long-term unemployment in a range of sectors to skill people through apprenticeships and to utilise public spend to tackle unemployment and deprivation.<sup>55</sup>

### **Enterprise Zones**

33. NI Chamber of Commerce believes there should be more support for the development of enterprise zones. In acknowledging the planned pilot enterprise zone in Coleraine it calls for consideration to be given to further enterprise zones across Northern Ireland with fast track planning and 100% rate relief for the first five years of any new start-up business and for the first three years for expanding businesses.<sup>56</sup> It calls for enterprise zones to also have world-class infrastructure and the ability to avail of capital allowances.<sup>57</sup> Enterprise NI supports the call for the development of more enterprise zones and further calls for the planned pilot enterprise zone to be prioritised.<sup>58</sup> NILGA considers the creation of enterprise zones to be one of the financial mechanisms that should be implemented to build and rebalance the regional economy.<sup>59</sup> Both the former Newry & Mourne District Council<sup>60</sup> and Mid-Ulster District Council<sup>61</sup> would like to see the creation of more enterprise zones. The CBI believes that, although the creation of enterprise zones will not have a strategic, transformational impact but would have a local sub-regional impact.<sup>62</sup> A Northern Ireland Electricity (NIE) proposal to establish 'Power Parks' combined with the creation of enterprise zones is considered later in this report.

### **Business Accommodation & Office Space**

34. A number of organisations commented on the shortage of accommodation for businesses. Some commented in general terms with the former Newry & Mourne District Council calling for the Executive to prioritise the release of publicly held land assets for existing businesses to develop and expand and for new start-up businesses.<sup>63</sup> The Campaign for the Economic Regeneration of the Former Visteon Site (CERFVS) states that the Executive needs to have a wide range of sites available to meet the wide range of investors' needs. CERFVS believes the Executive should move now to secure and develop specific sites which have the potential to attract FDI and the potential to develop areas of high unemployment.<sup>64</sup>
35. Although not considered a priority area in the Committee survey of existing Northern Ireland businesses,<sup>65</sup> the need to increase availability of high quality office space is considered an area of considerable importance by the NI Chamber of Commerce.<sup>66</sup> Representatives outlined that the key reason was a lack of investment in new Grade A office space because the economic returns are not adequate for developers to invest as rents are too low. Northern Ireland Chamber of Commerce (NICC) believes an increase in rentals is needed in

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54	Appendix 3: CBI Written Submission
55	Appendix 2: ICTU Oral Evidenced
56	Appendix 3: NICC Written Submission
57	Appendix 2: NICC Oral Evidence
58	Appendix 3: Enterprise NI Written Submission
59	Appendix 5: NILGA – Northern Ireland Fiscal Powers Note
60	Appendix 3: Newry & Mourne District Council Written Submission
61	Appendix 3: Mid-Ulster District Council Written Submission
62	Appendix 2: CBI Oral Evidence
63	Appendix 3: Newry & Mourne District Council Written Evidence
64	Appendix 3: CERFVS Written Submission
65	Appendix 4: Committee Business Survey – Headline Results
66	Appendix 3: NICC Written Submission

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the coming years to attract capital into the creation of more Grade A office space.<sup>67</sup> Invest NI published a report in April 2015 which it had commissioned to establish the nature and extent of market failure in the commercial and industrial property market. The report looked at whether government intervention would be appropriate. Following the report Invest NI will explore whether mezzanine or equity finance to developers on commercial terms would act as a short-term intervention in order to stimulate the development of new Grade A office accommodation.<sup>68</sup> Invest NI states that it will now seek expressions of interest from developers for projects and proposals across Northern Ireland. The initial plan is for new build accommodation because this is considered the area where there is the greatest market failure.<sup>69</sup>

### **Financial Support to Business**

36. Over 50% of respondents to the Committee's Business Survey stated that Government Financial Support was a major factor with 43% of respondents stating that current provision of financial support is poor.<sup>70</sup>
37. A number of organisations made suggestions for how the Executive and Invest NI can manage budgets to support business in the coming years. The IoD Jobs Plan suggests moving £100m of revenue expenditure into the capital budget over each of the next four years in order to deliver a sustainable investment strategy. It also suggests that the Executive should give consideration to the use of European Investment Bank loans and other instruments to leverage additional finance on the back of existing assets and revenue streams such as the public sector housing stock. The IoD suggests the use of public-private partnerships, including the development of new funding models such as joint ventures, to leverage investments and maximise value for money.<sup>71</sup> Manufacturing NI informed the Committee that the reduction in Invest NI's core uncommitted funding to support businesses will have an impact on important areas such as energy efficiency, lean manufacturing and skills development. The organisation questions whether Invest NI receives the appropriate level of funding in the right parts of its budget.<sup>72</sup> NI Chamber of Commerce calls for an increase in the budget for export support in order to ensure that businesses build international capabilities and overcome barriers to entering new export markets.<sup>73</sup> However, in oral evidence to the Committee, NI Chamber of Commerce informed members that there is good financial support available for exports in Northern Ireland. They believe there may be some gaps but the real issue is with businesses gaining an understanding of what is available.<sup>74</sup> DARD sees a role for the Executive in providing funding for a Farm Business Improvement Scheme to ensure more effective use of agricultural land and facilitating increased uptake of EU funding.<sup>75</sup>
38. The Committee stakeholder event, explored how financial support for business could be improved. Many delegates were of the view that government financial incentives should focus on exports as this was considered the best way to boost business growth. The following points were made in relation to how financial support from government could be improved:
- Streamline government financial support, making it more specific and more outcomes focused;
  - Help companies de-risk exports, reducing liability of new firms exporting; and

67 Appendix 2: NICC Oral Evidence

68 Appendix 5: Invest NI Press Release 21st April 2015

69 Appendix 2: DETI/INI/ITI Oral Evidence

70 Appendix 4: Committee Business Survey – Headline Results

71 Appendix 3: IoD Written Submission

72 Appendix 2: MNI Oral Evidence

73 Appendix 3: NI Chamber of Commerce Written Submission

74 Appendix 2: NI Chamber of Commerce Oral Evidence

75 Appendix 3: DARD Written Submission

- Better alignment with the education sector and learning in schools.<sup>76</sup>
39. The direct financial support which has been provided to businesses through Invest NI in the Form of Selective Financial Assistance (SFA) has been constrained by EU State Aid limits, which have declined in recent years. DETI believes that Northern Ireland still needs to attempt to retain its ability to use SFA as much as possible in the coming years.<sup>77</sup> The Regional Aid Guidelines (RAG) for 2014-2020 permits support for large companies for initial investment for new economic activity and for diversification into new products or services. It does not permit support for expansion of existing operations. Support for SMEs is also permitted.<sup>78</sup> The Committee Specialist Advisor, Dr Leslie Budd believes more can be done with SFA to encourage more investment outside of greater Belfast.<sup>79</sup>
40. The Department states that, although support such as SFA has been restricted, other types of support are subject to fewer restrictions including financial assistance towards:
- Advisory and consultancy services.<sup>80</sup>
  - Equity support for SMEs;
  - Innovation and collaboration;
  - Research and development; and
  - Training and skills;
41. ICTU questions the benefits of SFA stating that providing funding to companies to create jobs can, in many cases, result in jobs that are poorly paid and short-lived. It suggests funding should change to focus more on innovation.<sup>81</sup>
42. Invest NI provides support to a range of companies to undertake R&D including support for small start-ups, SMEs new to R&D, indigenous companies and inward investors. It states that its principle support, the Grant for R&D assisted over 250 projects in 2014-2015 with total project costs in excess of £120 million. Invest NI also encourages local companies to participate in national and EU programmes including companies which have the potential to benefit from R&D but which have not yet taken part. InterTradelreland also provides a number of programmes for smaller, indigenous SMEs to participate in innovation on a cross-border basis. It also provides support to academics and companies to avail of international R&D opportunities.<sup>82</sup> DETI also received support through the European Regional Development Programme (ERDF) for 2014-2020 for the Grant for R&D, for the Design Service to support business growth by helping companies to build better design knowledge, skills and capability and for SFA support to SMEs to achieve higher levels of business growth and high quality employment. Details of the projects and budgets are included in the DETI briefing to the Committee on ERDF at Appendix 5.<sup>83</sup>
43. The IoD informed the Committee that the grants system needs to move from supporting cost centres. It believes the system must be streamlined to make it easy for businesses to relocate to Northern Ireland, stating that lower corporation tax will be the attractor but that it is up to the Executive to ensure everything else is in place. The IoD acknowledges that such a move will involve areas outside DETI but sees the Department as the 'point of contact.'<sup>84</sup> According to Manufacturing NI, other EU regions find creative ways to invest in supporting

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76 Appendix 4: Committee Stakeholder Event

77 Appendix 3: DETI/Invest NI/ITI Written Submission

78 Appendix 5: DETI Response to Committee Questions 11th May 2015

79 Appendix 2: Dr Leslie Budd Oral Evidence

80 Appendix 5: DETI Response to Committee Questions 11th May 2015

81 Appendix 3: ICTU Written Submission

82 Ibid

83 Appendix 5: 2014-2020 NI ERDF: Committee Briefing

84 Appendix 2: IoD Oral Evidence

manufacturers including significant capital support. The organisation would encourage Invest NI to benchmark its support packages to the best and most agile regions in Europe in order to grow indigenous manufacturing businesses.<sup>85</sup> NI Chamber of Commerce suggests the Executive should look for innovative techniques to fund investment. It cites the Scottish Futures Trust (SFT) as a good example of what has worked there.<sup>86</sup>

44. The Stuttgart Region does not offer direct financial assistance to companies. The key functions of WRS, the region's development agency, include:
- Marketing the Region;
  - Supporting investors in location decisions;
  - Managing clusters and networks;
  - Supporting and encouraging innovation;
  - Supporting recruitment; and
  - Assisting knowledge-based and high-growth potential start-ups.<sup>87</sup>
45. The Stuttgart Region has developed a cluster policy with WRS which seeks to improve economic structures through networks, technology development and start-up support. The region's clusters are supported by competence centres which are business and academic networks focusing on a technological sub-division with a specific industry sector. Competence Centres receive financial support from the Regional Government to leverage private investment. Competence Centres have been designed to focus on sub-sectors or specific technologies with already successful clusters. They allow for knowledge exchange and cooperation in relatively 'niche' areas. Detailed information on the Stuttgart Region's Competence Centres is included at Section 9, page 18 of the Assembly Research Paper on the Committee Visit to the region at Appendix 4.<sup>88</sup> In May 2015, the Minister of Enterprise, Trade & Investment announced the establishment of a £6.7 million Agri-Food Quest Competence Centre (AFQCC) which is made up of £5 million in Invest NI research and development assistance and £1.7 million investment from industry.<sup>89</sup>
46. Mid-Ulster District Council would like to see the creation of a Small Business Innovation Fund to provide specialist support for SMEs to exploit new opportunities in R&D and drive competitiveness and productivity, address long-term economic imbalances and accelerate business growth in indigenous businesses.<sup>90</sup> ICTU supports this proposal suggesting that it could provide an opportunity for SMEs to cluster together to achieve economies of scale, share technology, skills and office space.<sup>91</sup> The Agri-Food Strategy Board is looking to Government to provide financial support to accelerate R&D to make Northern Ireland a world leader in safe and healthy food production and assist in the enhancement of traceability.<sup>92</sup>

### **Rates and Taxation**

47. The rates system is clearly an issue for both the manufacturing sector and the small business sector. Both the NI Chamber of Commerce<sup>93</sup> and Manufacturing NI would like to see a freeze in rates at the very least.<sup>94</sup> NICC would like to see the retention of the industrial

85 Appendix 3: MNI Written Submission

86 Appendix 3: CBI Written Submission

87 Appendix 4: Committee – Stuttgart Visit

88 Ibid

89 Appendix 5: DETI Press Release 14th May 2015

90 Appendix 3: Mid-Ulster District Council Written Submission

91 Appendix 2: ICTU Oral Evidence

92 Appendix 3: DARD Written Submission

93 Appendix 3: NICC Written Submission

94 Appendix 3: MNI Written Submission

derating arrangements until 2017.<sup>95</sup> Manufacturing NI states that the current uncertainty relating to the cap on industrial rates, which is in place only for the 2015-2016 year, is holding back investment. The organisation believes that if the cap is secured for the longer term this will send out a clear message to indigenous businesses and will encourage investment and expansion. It can also be used as a competitive point of difference to promote Northern Ireland as a place for FDI.<sup>96</sup> Manufacturing NI also sees the extension of industrial derating as critical to the long-term viability of many manufacturing businesses which need a lot of space.<sup>97</sup> Dairy UK (NI) agrees that the cap on rates must be retained as its removal may make businesses uncompetitive.<sup>98</sup>

48. NILGA welcomes the commitment in the Northern Ireland Draft Budget to continue the Small Business Rates Relief Scheme (SBRRS) for an additional year.<sup>99</sup> The Federation of Small Business states that the rates bill is one of the highest cost elements for its members. The organisation believes the SBRRS has been of real benefit to small businesses across Northern Ireland, helping them to stay in business and invest. The FSB strongly advocates the retention of the SBRRS into the future. It believes the uncertainty relating to the long-term provides uncertainty for small businesses and can inhibit investment and expansion.<sup>100</sup> There is a review of non-domestic rates planned by the Minister of Finance & Personnel and the FSB sees this as a significant opportunity to fundamentally reform the system which it sees as archaic.<sup>101</sup> In oral evidence, FSB representatives suggested that rates could be based on the ability of a business to pay, taking into account profitability, turnover and the nature of the business. They believe there is scope to take a proportion of small businesses out of the rating system altogether as it would be a small proportion of overall rates revenue.<sup>102</sup>
49. The CBI stated that the recent valuation had resulted in winners and in significant losers. It had been arguing for a valuation for some time and believes that the time gap since the last valuation has caused a number of business to be hit with very significant increases. The CBI believes there should be a more regular valuation for rates purposes in order to address the problem in future.<sup>103</sup>
50. NI Chamber of Commerce considers taxation rates to be one of the most problematic aspects of doing business in Northern Ireland. It believes that reducing costs and the amount of tax businesses pay will boost competitiveness, investment and jobs.<sup>104</sup> Manufacturing NI suggests lobbying Westminster to achieve changes to capital investment allowances.<sup>105</sup> NICC would like to see additional financial incentives such as tax credits for SMEs that invest significantly in training.<sup>106</sup>

## Skills and Education

### Higher and Further Education

51. Research undertaken by the Ulster University shows that the most relevant degrees by sector for the manufacturing sector are: business and finance; engineering; and agriculture.

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95	Appendix 2: NICC Oral Evidence
96	Appendix 3: MNI Written Submission
97	Appendix 2: MNI Oral Evidence
98	Appendix 3: Dairy UK (NI) Written Submission
99	Appendix 4: NILGA Response to NI Draft Budget 2015-2016
100	Appendix 3: FSB Written Submission
101	Ibid
102	Appendix 2: FSB Oral Evidence
103	Appendix 2: CBI Oral Evidence
104	Appendix 3: NICC Written Submission
105	Appendix 3: MNI Written Submission
106	Appendix 3: NICC Written Submission

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The most relevant for the ICT sector are mathematical and computer sciences; engineering; and physical sciences. For admin and related services the most relevant degrees are in business and finance; physical sciences; and biological sciences. The most relevant degrees for the professional services sector are architecture; mass communications; and law.<sup>107</sup> Approximately 30,000 places in further education colleges are going to be lost come September 2015 with Universities losing 1,100 places.<sup>108</sup>

52. In written evidence, Grow NI called for representatives from Invest NI and DETI to sit on each university board within Northern Ireland. They also called for better and closer collaboration between Invest NI, DETI and the higher and further education establishments in order to reduce the lead time between employer needs and education and skills delivery.<sup>109</sup> ICTU agrees that universities should not be working in silos it supports business and universities working together to develop and up-skill the labour market.<sup>110</sup> Enterprise NI called for action to ensure that Northern Ireland increases the number of high quality under and post graduate students across a range of disciplines.<sup>111</sup> The Institute of Directors, in oral evidence called for the higher and further education needs to be better targeted to inward investors. The CBI noted that there is still a need to better recognise the contribution that higher and further education makes to the economy. The CBI believes that it is critical that investment is prioritised into our higher and further education systems as they play a huge role in enhancing Northern Ireland as a region to do business and invest in. The proposed new Department of the Economy should, according to Grow NI, focus on facilitating more direct strategic and operational links with universities and other educational establishments throughout Northern Ireland<sup>112</sup> as has been achieved in the Stuttgart Region.<sup>113</sup>
53. Returns from the Committee Business Survey show that 48% of respondents believe that the current provision of higher and further education within Northern Ireland is either 'Excellent' or 'Good' and, if improvements were made, it would have a high impact on 22% of respondents' business growth with a further 35% outlining that it would have a moderate impact.

### Skills

54. The Department for Employment and Learning notes that much work has been conducted to develop the local skills base, in particular the rebalancing towards higher level skills. Northern Ireland still suffers from a legacy of too many people with low or no skills and qualifications which is unsustainable according to the Department.<sup>114</sup> 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.<sup>115</sup> In written evidence to the Committee, Enterprise NI stated that, in order to consistently attract high value jobs, high skills levels are required by prospective FDI amongst the workforce pool. They also note a clear relationship between a country's or region's level of skills and its economic growth which have a positive impact on an organisation's ability to promote and enhance innovation.<sup>116</sup>
55. In oral evidence, Manufacturing NI state that they have seen a greater investment in providing a skilled workforce but large gaps still remain. Investment should be made in ensuring a

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107 Appendix 3: Belfast City Council Written Submission  
 108 Appendix 2: Northern Ireland Chamber of Commerce Oral Evidence  
 109 Appendix 3: Grow NI Written Submission.  
 110 Appendix 2: ICTU Oral Evidence  
 111 Appendix 3: Enterprise Northern Ireland Written Submission  
 112 Appendix 3: Grow NI Written Submission  
 113 Appendix 4: Committee Stuttgart Visit  
 114 Appendix 3: DEL Written Submission  
 115 Appendix 3: NI Chamber Written Submission  
 116 Appendix 3: Enterprise NI Written Submission



skilled workforce at all levels.<sup>117</sup> Similar views were echoed by SDC Trailers<sup>118</sup>, Grow NI<sup>119</sup> and Enterprise NI.<sup>120</sup> In written evidence, Enterprise NI noted that businesses across all sectors within Northern Ireland require a different and flexible skills set from their employees and there are indications that many businesses are struggling with a general shortage of skills.<sup>121</sup> Belfast City Council noted that it will remain difficult to have an effective impact unless there is a greater alignment between identified needs employability provision for target groups and input from employers on the skills required.<sup>122</sup>

56. In written evidence, the Department outlined that, to help inform future skills planning and forecasting work, DETI, DEL and Invest NI will be taking forward a research project in 2015 which will help identify the likely skills needs that companies attracted by corporation tax will have.<sup>123</sup> The Federation of Small Business expressed concern about the budget cuts to the skills and education sector. They believe skills are absolutely vital both for the growth of the small business sector and for incoming foreign direct investment.<sup>124</sup> The Irish Congress of Trade Unions (ICTU) noted in written evidence to the Committee that they largely agree that there must be actions to increase the inflow of highly skilled, experienced migrant and diaspora workers and that up-skilling must take place to help those with low skills especially by helping them with basic literacy and numeracy. ICTU praised the retention of funding for the Union Learning Programme, which is funded through DEL, as they believe it is one of the best value projects for up-skilling the existing workforce.<sup>125</sup>
57. Only 4% of respondents to the survey are satisfied that the current provision of skills and education is of 'Excellent' quality with 42% stating that it is 'Good'. A combined 56% of respondents believe that current provision is either 'Fair' or 'Poor'. 44% of respondents outlined that improvements in Skills and Education would have a high impact on their business growth with a further 31% of respondents stating it would have a moderate impact.

### Apprenticeships

58. The provision of apprenticeships was a common feature of written and oral evidence received by the Committee. Manufacturing NI noted in written evidence that there should be greater availability of quality manufacturing leadership management, specialist professional training and apprenticeships throughout Northern Ireland.<sup>126</sup> The profile of apprenticeships, according to Manufacturing NI, should be enhanced to make it an acceptable career path for a wider range of manufacturing jobs and professions including those which require graduate entry with a special emphasis being placed on STEM-related apprenticeships.<sup>127</sup> In oral evidence, Manufacturing NI, requested that funding for apprenticeships is passed back to employers as the success rate is a lot higher than it is in colleges when that takes place.<sup>128</sup>
59. 59. The Road Haulage Association was concerned about recruitment in its sector and noted staff shortages in the area of commercial vehicle technicians and lorry drivers.<sup>129</sup> The Road Haulage Association called for a review of the funding available for trainees and

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- 117 Appendix 3: Manufacturing NI Written Submission  
 118 Appendix 3: Oral Evidence Manufacturing NI (SDC Trailers Representative)  
 119 Appendix 3: Grow NI Written Submission  
 120 Appendix 3: Enterprise Northern Ireland Written Submission  
 121 Appendix 3: Enterprise NI Written Submission.  
 122 Appendix 3: Belfast City Council Written Submission  
 123 Appendix 3; DETI Written Submission  
 124 Appendix 2: FSB Oral Evidence.  
 125 Appendix 3: ICTU Written Submission  
 126 Appendix 3: Manufacturing NI Written Submission  
 127 Ibid  
 128 Appendix 4: Manufacturing NI Oral Evidence  
 129 Appendix 3 : Road Haulage Association Written Submission

apprentices in Northern Ireland which, according to the Association, is less generous in Northern Ireland than it is in GB.<sup>130</sup>

60. In oral evidence, the Institute of Directors informed the Committee that apprenticeships are vital for the economy. Whilst welcoming the higher number of apprenticeships and the fact that both DEL and DETI are joining together so that there will be a much more joined up thinking process.<sup>131</sup>
61. The CBI noted that a key priority should be delivering the new employer-led apprenticeship model in 2016 with businesses being encouraged to over-train where skills demand it. Proposing a Universities and Colleges Admissions Service (UCAS) style system for apprenticeships and a central support service for employers should also be key priorities in removing the barriers to allow all age groups to apply for apprenticeships as well as those who have already concluded existing Level 2.<sup>132</sup> In oral evidence to the Committee for Employment & Learning on 3rd June 2015, the Department for Employment & Learning outlined the implementation of the new employer-led model for apprenticeships which, it is intended, will be fully operational by September 2016. The Committee was informed that the new model will provide employer ownership of apprenticeships with employers taking the lead in content to meet their needs. It will provide a genuine pathway to employment with qualifications from entry level to PhD with a strong focus on high level apprenticeships. It is also intended that the area in which apprenticeships are available will be widened and will lead to the same qualifications as those going into full-time FE and HE courses. An Interim Advisory Forum has been established and includes the FE and HE sectors as well as business, employer and trade union representatives. Three sector partnerships have been established to agree content of qualifications. These are in the ICT, agri-food and advanced manufacturing & engineering sectors. They are employer-led with FE and HE input. Other sectors are also coming forward to express an interest in developing partnerships including the financial services and health & life sciences sectors.<sup>133</sup>

### Schools

62. Schools play a vital part in ensuring the next generation of the Northern Ireland workforce is equipped with the skills to ensure that Northern Ireland remains competitive amongst an ever-increasing market. Two in five employers in Northern Ireland already report or anticipate problems in recruiting graduates with STEM skills and over 50% have or expect to have problems in recruiting experienced STEM workers.<sup>134</sup> The Department notes that there is considerably more potential now to work with the Department of Education in influencing curriculum policy, careers education and how parents think in influencing the career choices that children and young people make. Whilst the Department admits that there is room for more systematic policy and engagement between the two departments, it is expected that this cooperation will be reflected in the Programme for Government.<sup>135</sup> The CBI called for schools to motivate young people to highlight to them the opportunities available as well as ensuring that young people have the right attitudes and behaviours through the career guidance provided to them.<sup>136</sup>
63. In written evidence, Manufacturing NI called on schools and colleges to work more closely with employers in order to match supply with demand for certain skills and developing

130 Ibid

131 Appendix 4: Institute of Directors Oral Evidence

132 Appendix 3: CBI Written Submission

133 <http://www.niassembly.gov.uk/assembly-business/committees/employment-and-learning/meetings/03-june-2015/> (Accessed 10th June 2015)

134 Appendix 3: CBI Written Submission.

135 Appendix 2: DETI Oral Evidence.

136 Appendix 2: CBI Oral Evidence

new business opportunities.<sup>137</sup> The CBI called for a speedy implementation of the recommendations of the Independent Review of Careers Advice and Guidance (2014) which it believes is absolutely critical and urgent to improve the education and skills system to meet economic needs.<sup>138</sup> This may include the teaching of computer programming at primary level.<sup>139</sup> The CBI also called for all schools in Northern Ireland to offer separate sciences as an option for GCSE to meet the increasing need for STEM subjects.<sup>140</sup> CBI representatives also called for a much more ambitious implementation of the STEM Strategy by making the study of maths compulsory post GCSE.<sup>141</sup> According to the CBI, in France and Germany, 65% to 70% of young people are studying maths post GCSE whilst within the UK it is less than 20%. Whilst not advocating for students to do an A-Level in maths, students must have, according to the CBI, a basic competence in maths on leaving school.<sup>142</sup> The Northern Ireland Chamber of Commerce reported that a higher share of the working-age population has low qualifications and low levels of both literacy and numeracy with not many young people being properly equipped for the world of work.<sup>143</sup>

64. The CBI called for a statutory requirement for all students in Key Stages 4 and 5 to undertake work experience to increase their employability. 85% of firms in Northern Ireland rate 'attitudes to work' as one of the most important factors they consider when recruiting school and college leavers. Work experience programmes will help students learn resilience, enthusiasm, curiosity and creativity according to CBI.<sup>144</sup> A similar programme is currently implemented in the Stuttgart Region of Germany and Committee members were informed on their visit that, in Germany, dual learning programmes offer young people integrated work and school based learning, with students spending part of their time in the classroom and part in the workplace. The system is designed to prepare students for the working world and to match skills with demand. There is also a high degree of cooperation between employers and schools in order for the programme to be a success.<sup>145</sup>
65. Numerous submissions to the Inquiry called for the need for local employers and business people to act as school governors to bring high quality and relevant skills to a key function.<sup>146</sup> The Department noted in oral evidence that the board of governors is an extremely important and challenging role and that it has been Department policy for some years to encourage more participation on boards of governors by business representatives. These people will bring knowledge, skills and experience of the world of business which will influence how the education system operates according to the Department.<sup>147</sup>

### **Competence in Languages**

66. Whilst English is becoming the international language of business worldwide, competence in languages is becoming more sought after by companies looking to relocate. A report published in 2013 by the Department of Education recommended that pupils have the opportunity to study at least two languages in addition to their mother tongue from the earliest possible age and that all secondary pupils have the opportunity to study throughout their school career at least one language other than English. The '*Languages for the Future*' report identifies Spanish, Arabic, French, Mandarin Chinese, German, Portuguese, Italian,

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137 Appendix 3: Manufacturing NI Written Submission

138 Appendix 3: CBI Written Submission

139 Appendix 2: CBI Oral Evidence

140 Ibid

141 Appendix 2: CBI Oral Evidence

142 Ibid

143 Appendix 3: Northern Ireland Chamber of Commerce Oral Evidence.

144 Ibid

145 Appendix 4: Committee Stuttgart Visit Research Paper.

146 Appendix 2: Northern Ireland Chamber of Commerce Oral Evidence; CBI Oral Evidence;

147 Appendix 2: DETI Oral Evidence.

Russian, Turkish and Japanese as the languages most vital to the UK over the next 20 year period. These languages were highlighted on the basis of economic, geopolitical and educational factors including the needs of UK businesses and the UK's overseas trade targets.<sup>148</sup>

67. Competence in languages featured in Ulster University's (UU) written submission which highlighted that graduates fluent in modern languages play an important part in Northern Ireland's attractiveness for FDI. UU highlighted that the teaching of Chinese on some of its 3rd level courses was in response to opportunities presented by the world's fastest growing economy. Enterprise NI recognises that the range, number and quality of vocational skills must be prioritised along with language skills. Enterprise NI believes such investments will ensure that Northern Ireland maintains its advantage in producing highly skilled and trained graduates capable of filling the jobs created. The CBI stated that a willingness to promote the Chinese language could give Northern Ireland a unique selling point when engaging with inward investors.<sup>149</sup>

### **Management, Leadership and Entrepreneurial Skills**

68. Learning for Life and Work is a compulsory subject for students throughout Key Stages 3 and 4 and covers careers education, local and global citizenship and entrepreneurship all of which the Department state are relevant to the employability of young people in Northern Ireland.<sup>150</sup> Subject to the availability of resources the Department of Education will lead other Executive departments in providing support at a regional level to targeted interventions in the business and entrepreneurial fields.
69. In 2012, The Department for Employment and Learning published research entitled 'Preparing for a Lower Corporation Tax Environment'. The research highlighted the importance of strong skills in STEM, management and leadership and literacy, numeracy and employability skills if we are to capture the full benefits of a lower corporation tax rate.<sup>151</sup> DEL also noted that additional jobs created by a lower tax rate may require strong management, leadership and professional skills.<sup>152</sup>
70. Promoting entrepreneurship forms part of the current Northern Ireland economic strategy which sets a target to promote 6,500 jobs in new start-up businesses.<sup>153</sup> The current programme for government makes no explicit commitment to promote entrepreneurship unlike the 2002-2005 Programme for Government which committed to address the low level of entrepreneurial activity in Northern Ireland.<sup>154</sup> Entrepreneurship is not only confined to DETI and Invest NI with DARD funding the Rural Youth Entrepreneurship Programme targeting entrepreneurs aged between 16 and 30 years old. The Department of Education also provides funding to a number of organisations to deliver enterprise, employability and entrepreneurship education to primary and post-primary pupils either in school or at larger regional events.<sup>155</sup> The 32 Local Enterprise Agencies (LEAs) also have responsibility for promoting entrepreneurial activity and deliver a range of development opportunities including access to low cost accommodation and financial support.<sup>156</sup>
71. Since April 2015, the 11 new councils have the responsibility for developing local economies and nurturing enterprise as part of the transfer of powers to local government. A number of

148 <http://www.britishcouncil.org/organisation/publications/languages-future> (Accessed 28th May 2015)

149 Appendix 2: CBI Oral Evidence

150 Appendix 3: Department of Education Written Submission

151 Appendix 3: Department for Employment and Learning Written Submission

152 Ibid

153 Appendix 4: Assembly Research Paper- Support for Entrepreneurship in NI and ROI

154 Ibid

155 Ibid

156 Ibid

councils have already implemented programmes prior to the transfer of powers including the Business Boot Camp Programme organised on a cross border basis and Belfast City Council's 'High Growth Pre-enterprise Programme' which are designed to complement the regional programmes provided by Invest Northern Ireland.<sup>157</sup>

72. Mid Ulster District Council called for the creation of an enterprise zone for the sub-regions with Northern Ireland which would help create conditions for sustainable balanced growth and which would support entrepreneurship and facilitate business expansion. Belfast City Council notes that entrepreneurship is one of the main drivers for attracting FDI to Northern Ireland.<sup>158</sup> The IoD Jobs Plan calls for the provision of intensive support measures including mentoring support to build necessary capabilities in areas including leadership, management, development, sales and marketing.
73. The Committee Business Survey highlighted that some businesses in Northern Ireland believe that education in business related subjects is too limiting in schools.<sup>159</sup> Business related subjects can include areas such as business finance, HR and ICT. This was echoed by NI Chamber of Commerce who highlighted to the Committee that there was a shortage of graduates across a number of key areas including management.<sup>160</sup>

## Infrastructure

### Northern Ireland Infrastructure in General

74. Infrastructure includes transport, telecoms and energy. Transport infrastructure includes that relating to roads, rail, ports, airports and public transport. Telecoms infrastructure relates to broadband, land lines and mobile communications. Energy infrastructure relates mainly to gas and electricity. Given the importance of energy issues and the strong link between energy infrastructure requirements and energy costs, this matter is considered separately below under the heading 'Utilities'.
75. A range of organisations including the CBI<sup>161</sup>, NI Chamber of Commerce<sup>162</sup>, the Institute of Directors<sup>163</sup> and the Road Haulage Association<sup>164</sup> commented on the need to have a coordinated plan to address the wide range of infrastructure needs across Northern Ireland including key transport, telecoms and energy infrastructure developments. Many organisations commented on the very slow speed at which infrastructure projects are developed and the negative impact that lack of decision-making has on business.
76. As stated earlier, the IoD Jobs Plan suggests moving £100m of revenue expenditure into the capital budget over each of the next four years in order to deliver a sustainable investment strategy. The CBI also called for a future Investment Strategy which prioritises:
- Improvement to the strategic road network;
  - Enhanced connectivity to airports and ports;
  - Further encouragement of long haul air-connectivity;
  - Early completion of the Integrated Transport Hub;
  - Upgrading of the Belfast to Dublin Enterprise train service;

157 Ibid

158 Appendix 3: Belfast City Council Written Submission

159 Appendix 4: Committee Business Survey – Headline Results

160 Appendix 2: Northern Ireland Chamber of Commerce Oral Evidence

161 Appendix 3 CBI Written Submission

162 Appendix 3: NICC Written Submission

163 Appendix 3: IoD Written Submission

164 Appendix 3: RHA Written Submission

- Having Belfast and Derry/Londonderry as super connected cities;
- Ongoing investment in water and sewerage services;
- Energy connectivity and costs; and
- Office space.<sup>165</sup>

### **Transport Infrastructure**

77. The Department for Regional Development sees transport as an essential enabler to the regional economy. In written evidence, the Department for Regional Development (DRD) stated that transport is crucial to enabling other economic drivers such as access to markets, access to suppliers, lifestyle and living standards. DRD believes improvements in transport infrastructure can reap benefits for industry through improved positioning in the global marketplace which will enable businesses to maximise their potential and add real value to Northern Ireland. It is seen as imperative that there is investment in transport to allow the creation of an integrated, modern, reliable and environmentally efficient transportation network.<sup>166</sup>
78. In order to ensure all areas of Northern Ireland contribute to and benefit from increased prosperity, DRD sees it as essential to invest in the wider regional transport network to enhance urban and rural connectivity. At a strategic level DRD has developed a Regional Development Strategy which is aimed at ensuring people can connect with a range of facilities and services. Its Regional Transportation Strategy sets out how investment in the road network will be supported by significant investment in bus and rail networks and walking and cycling facilities.<sup>167</sup>
79. The Executive can learn from the integrated approach to transport infrastructure which has been adopted in the Stuttgart Region. Developments are located along transport corridors and the city is organised to minimise travel distance. The region has instigated a number of schemes to encourage public transport. These include an integrated system of local and regional rail, bus, underground network, bike scheme (including electric bikes) and a drop-off electric car scheme which all operate from a single card.<sup>168</sup>

### **Road Infrastructure**

80. In both oral and written evidence, organisations such as the CBI, IoD, NICC and MNI highlight the strategic importance to the regional and sub-regional economy of a road infrastructure that is appropriate to the needs of business. The CBI believes the infrastructure of Northern Ireland must be seen to be globally competitive and must seek to maximise three critical themes for all investors, namely:
- Improved access to markets and onward connectivity;
  - Reliable journey times on the strategic transport network; and
  - Investment opportunities that are set within key catchment areas for employees.<sup>169</sup>
81. CBI representatives informed the Committee that there are gaps in the strategic road network. They stated that there are issues relating to connectivity within Northern Ireland, with the RoI and to ports and airports. They consider it important to address these issues both for trade purposes and for access to work in order to enable more people to travel to where the jobs will be.<sup>170</sup>

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165 Appendix 3: CBI Written Submission  
 166 Appendix 3: DRD Written Submission  
 167 Ibid  
 168 Appendix 4: Committee Stuttgart Visit  
 169 Appendix 3: CBI Written Submission  
 170 Appendix 2: CBI Oral Evidence

82. The IoD believes that many areas can appear rural and inaccessible due to the poor road infrastructure.<sup>171</sup> Manufacturing NI supports this view and highlights a lack of integration between available space for businesses to locate and the transportation infrastructure. It commented on one manufacturer which planned to double its space but was unwilling to locate in the north-west, where space was available, due to poor road infrastructure.<sup>172</sup> DRD highlighted the fact that the majority of FDI is located along the Regional Transport Network and in close proximity to key export gateways. It considers it important to target investment in the strategic road network with a focus on addressing key bottlenecks and gaps on key corridors serving metropolitan areas and gateways.<sup>173</sup> The Road Haulage Association considers it important to create and upgrade road infrastructure to provide efficient and reliable services to manufacturing and service industries.<sup>174</sup> This highlights the importance of providing appropriate road infrastructure both for existing businesses to survive and grow in the global economy and to attract inward investment on a sub-regional basis across Northern Ireland.
83. Dr Leslie Budd, Specialist Advisor to the Committee, informed the Committee that one issue with improving infrastructure is that it may increase commuting into greater Belfast. He therefore sees connectivity across the region and across the border to be important factors.<sup>175</sup> Three projects in particular are considered important in this context, namely the A5, the A6 and the York Street Interchange. It is considered strategically important by Manufacturing NI,<sup>176</sup> the CBI,<sup>177</sup> and NI Chamber of Commerce<sup>178</sup> that projects such as these are progressed without further delay. The slow speed of decision-making and delivery of such projects is seen as a significant inhibitor for both existing businesses and potential inward investment sub-regionally. This view was reflected at the Committee Stakeholder event where the development of road infrastructure was cited as an example of where slow decision making at political level is negatively impacting on business development.<sup>179</sup> MNI calls for a single central and accountable regime which speeds up the delivery of infrastructural and capital projects on behalf of all Executive departments.<sup>180</sup>

### **Public Transport Infrastructure**

84. According to DRD, for the City to continue to be the regional driver for growth will require significant investment in Belfast's transport infrastructure. It states that failure to invest will constrain growth at both local and regional level. It considers the creation of integrated transport hubs in the two major cities to be central to providing sustainable connectivity across the entire region.<sup>181</sup> The CBI agrees that early completion of the Great Victoria Street transport hub must be a priority.<sup>182</sup>
85. DRD believes there is potential for rail to contribute towards enhanced connectivity and competitiveness. It states that railway investment prioritisation aims to significantly increase the capacity of the rail network.<sup>183</sup> The NI Chamber of Commerce believes there must be investment in public transport services to enhance connectivity and mobility and key

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171	Appendix 2: IoD Oral Evidence
172	Appendix 2: MNI Oral Evidence
173	Appendix 3: DRD Written Submission
174	Appendix 3: RHA Written Submission
175	Appendix 2: Dr Leslie Budd Oral Evidence
176	Appendix 3: MNI Written Submission
177	Appendix 3: CBI Written Submission
178	Appendix 2: NICC Oral Evidence
179	Appendix 4: Committee Stakeholder Event
180	Appendix 3: MNI Written Submission
181	Appendix 3: DRD Written Submission
182	Appendix 3: CBI Written Submission
183	Appendix 3: DRD Written Submission

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infrastructure projects of significant economic benefit must be identified and fast-tracked for early completion. It cites the rail link to Dublin in particular as requiring improvement.<sup>184</sup> This view is supported by the CBI.<sup>185</sup> The need to improve connections to airports is considered a priority by a number of respondents with Belfast City Council in particular stating that they are fragmented.<sup>186</sup>

86. An interesting aspect of the Stuttgart Region's public transport infrastructure is that the regional government runs an all-night public transport facility at weekends. This is deliberately run at a loss in consideration of the wider needs of society and the economy. It supports the night-time economy in the region, therefore contributing to jobs and the economy. It also helps promote the region as a good place to live and work.

### **Telecommunications Infrastructure**

87. Telecommunications Infrastructure, most notably broadband provision featured heavily in both written and oral evidence to the Committee. The NI Chamber of Commerce<sup>187</sup> and Fermanagh & Omagh District Council<sup>188</sup> called on the Committee for support in ensuring the further roll-out of broadband connectivity to all areas across Northern Ireland to increase e-business activity and improve access to high speed broadband in rural areas which would ensure that businesses all across the region have access to world-class digital infrastructure including 5G technology.
88. DETI, InterTradelreland and Invest NI in their joint submission to the Committee noted that significant investment has been made in communications infrastructure in Northern Ireland and this area needs to remain a priority for the Executive in the coming years.<sup>189</sup> With 83% of SMEs in Northern Ireland stating that communications services are fundamental to their business, access to strong, reliable and fit-for purpose communications will be essential to economic success and social cohesion.<sup>190</sup> The introduction of fibre broadband could assist companies in diversifying into new added-value markets which would better integrate supply chains, increase usage of cloud computing and exploit networks to share large renderings and designs according to DETI, Invest NI and InterTradelreland and would lead to cost savings of approximately £2million and generate revenue of £56million by 2018.<sup>191</sup>
89. In his submission to the Inquiry, the Committee Specialist Advisor noted that computer software companies are most active in places like Darlington or Worcestershire which are wired and have a lot of graduates from the surrounding universities.<sup>192</sup> The CBI also noted that having two major cities as super-connected cities is incredibly important and will provide major opportunities for firms both international and domestic. The Executive must however, stay ahead of curve on ensuring technology roll-out and ensure that Northern Ireland is made more attractive for investors.<sup>193</sup>
90. Results from the Committee Business Survey show, 7.9% of respondents identified telecommunications infrastructure as having a high impact on business but currently has poor provision with only 5% of survey respondents believing the current quality of provision in this area as being excellent and over half of respondents describing the current provision as

184 Appendix 3: NICC Written Submission

185 Appendix 3: CBI Written Submission

186 Appendix 3: Belfast City Council Written Submission

187 Appendix 3: Northern Ireland Chamber of Commerce and Industry Written Submission

188 Appendix 3: Fermanagh & Omagh District Council Written Submission

189 Appendix 3: DETI, Invest NI & InterTradelreland Joint Written Submission

190 Ibid

191 Ibid

192 Appendix 5: Dr Leslie Budd, Written Submission

193 Appendix 3: CBI Written Submission



being either 'Fair' (43%) or 'Poor' (14%).<sup>194</sup> 43% of respondents believe that improvements in this area will have a high impact on business growth.<sup>195</sup> Within the comments section of the survey, numerous responses included reference to the telecommunications network in Northern Ireland with 'Telephone Network very poor with Broadband not great either' and 'Access to fast broadband limits our ability to compete' being representative of the comments submitted to the Committee under this topic.

### **Air Transport**

91. In its submission to the Committee, the CBI noted that enhanced connectivity to our airports and ports is critical as is pressure being exerted by the Executive on the UK Government to make an early decision on the expansion of airport capacity in South East England as connectivity to London is critical if businesses in Northern Ireland want to grow.<sup>196</sup> The CBI also believes that long haul air connectivity should be encouraged from Belfast International Airport and that both airports should have their links to airports in Western Europe increased.<sup>197</sup><sup>198</sup>
92. Both bodies note that connectivity from airports within Northern Ireland to national and international locations is important for businesses and work has shown that direct connections are helpful in attracting FDI-type activities and inbound tourism.<sup>199</sup> Figures provided to the Committee by DETI and the UU Economic Policy Unit show that £1 billion worth of goods go out of Northern Ireland in air freight every year through Belfast International Airport.<sup>200</sup> This air freight connectivity is important for businesses in Northern Ireland.
93. Both DETI and the UU Economic Policy Unit note that Air Passenger Duty (APD) is not thought to be a strong economic development tool but that the abolition of APD would be unlikely to deliver a positive net benefit to the local economy.<sup>201</sup> A reduction in APD, according to DETI and The UU Economic Policy Unit, is a very blunt intervention and would result in an increase in outbound tourism rather than having the opposite effect.<sup>202</sup> Both bodies suggest the establishment of a Route Development Fund which could be targeted at business destinations such as London, Paris or Frankfurt which could see some inbound tourism potential.<sup>203</sup> The important factor from an FDI perspective, according to DETI and the UU Economic Policy Unit is that Northern Ireland has linkages to business destinations.<sup>204</sup>
94. Belfast City Council recognised in their submission to the Committee that both Belfast and Northern Ireland are heavily reliant on air transport both in terms of exporting and developing linkages on an international market.<sup>205</sup> Connectivity with London in particular was highlighted as being essential by Belfast City Council in encouraging development and growth and there is plenty of scope for development in this area over the next number of years.<sup>206</sup>

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194 Appendix 4: Committee Business Survey – Headline Results

195 Ibid

196 Ibid

197 Ibid

198 Appendix 3: Belfast International Airport Written Submission

199 Ibid

200 DETI & UU Economic Assessment of Air Passenger Duty. Available at [http://www.detini.gov.uk/economic\\_impact\\_assessment\\_of\\_air\\_passenger\\_duty.pdf](http://www.detini.gov.uk/economic_impact_assessment_of_air_passenger_duty.pdf) [Accessed 18 May 2015]

201 Ibid

202 Ibid

203 Ibid

204 Ibid

205 Appendix 3: Belfast City Council Written Submission

206 Ibid

### Ferry Services

95. The cost of transporting goods by ferry was raised by various organisations during both written and oral submissions. Manufacturing NI, in written evidence noted that an investigation into the costs of ferry travel show that the costs of ferry travel between Northern Ireland and Great Britain and Scotland in particular is sometimes up to five times more expensive than travelling across the English Channel and call for an investigation into why this is occurring.<sup>207</sup> Irwin's Bakery noted that the cost of transporting produce from Northern Ireland to Great Britain is greatly impacted purely by ferry charges. Within the food industry, there is a lack of competition and with more competition on the English Channel, prices have been driven down there not just amongst ferry companies but also due to other forms of transportation such as the Channel Tunnel. Whilst this is not a major factor for all businesses, the fact that it relates to the competitiveness of Northern Ireland as a whole, it should, according to Manufacturing NI, be examined by the Committee.<sup>208</sup> At present, the Scottish Government is carrying out a review into Freight Ferry Structures within Scotland. The Road Haulage Association, in its submission, outlined that should a similar review take place in Northern Ireland, the organisation would be happy to be involved.<sup>209</sup>

## Utilities

### Energy

96. The cost of energy has been highlighted by a large number of businesses as a key concern. In the Committee Business Survey, energy costs was one of the most important issue for respondents. It was cited as being both high impact and poor provision by more than 27% of respondents.<sup>210</sup> In evidence to the Committee the impact of energy costs was cited as an issue for high energy users in particular. NI Chamber of Commerce<sup>211</sup> and Lisburn & Castlereagh Borough Council<sup>212</sup> are concerned about the impact on the manufacturing sector whilst Dairy UK (NI) informed the Committee that, after the cost of raw milk, energy is the next highest cost for dairy companies. They stated that the cost of energy puts Northern Ireland companies at a significant disadvantage relative to competitors.<sup>213</sup>
97. One Business Survey respondent mentioned the risk of job losses due to high energy costs and Manufacturing NI stated that some of its members have located plants or extended facilities in other parts of Ireland or in GB solely because of the cost of energy in Northern Ireland.<sup>214</sup> This argument was supported by evidence from Belfast City Council which stated that high energy costs are considered a key inhibitor to business development and growth.<sup>215</sup>
98. DETI agrees that energy costs continue to be a key issue for both existing businesses and for attracting inward investment, particularly large energy users. However the Department also stated that there is little opportunity for the Executive to influence energy costs.<sup>216</sup>

### Electricity Costs

99. Most of the issues raised in relation to energy referred to electricity costs and connections. The Institute of Directors summarised this when representatives informed the Committee

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207 Appendix 3: Manufacturing NI Written Submission  
 208 Ibid  
 209 Appendix 3: Road Haulage Association Written Submission  
 210 Appendix 4: Committee Business Survey – Headline Results  
 211 Appendix 3: NI Chamber of Commerce Written Submission  
 212 Appendix 3: Lisburn & Castlereagh Borough Council Written Submission  
 213 Appendix 3: Dairy UK (NI) Written Submission  
 214 Appendix 2: Manufacturing NI Oral Evidence  
 215 Appendix 3: Belfast City Council Written Submission  
 216 Appendix 3: DETI/Invest NI/InterTradeIreland Written Submission

that for some foreign-owned businesses located in Northern Ireland electricity infrastructure is a huge concern both in terms of price and ability to expand in the area where they are located.<sup>217</sup>

100. During 2013 and 2014 the Committee undertook three reviews into electricity policy. These covered security of supply, pricing and grid connections.<sup>218</sup> Evidence to this inquiry has largely supported and reinforced the findings in the previous reviews and has further validated the recommendations made by the Committee. However, as the current Inquiry focuses solely on growth and job creation in the business sector it is worth summarising the evidence received relating to electricity issues.
101. The issue of Northern Ireland electricity prices being among the most expensive in Europe for large energy users was highlighted in the Committee's review of electricity pricing. This was covered by a number of those giving evidence to this inquiry including NI Chamber of Commerce,<sup>219</sup> Manufacturing NI,<sup>220</sup> Dairy UK (NI),<sup>221</sup> Manufacturing NI questioned the fairness of generation costs and called for the re-apportionment of network costs between high energy users and other users.<sup>222</sup> The FSB, on the other hand, whilst acknowledging that high energy users pay some of the highest costs in Europe, stated that others are paying above the EU and UK average and steps should therefore be taken to guard against transferring costs to smaller businesses.<sup>223</sup> Both organisations agree however that the Executive needs to look at how to drive down the total cost of electricity. Manufacturing NI believes work needs to be done to ensure avoidable additional costs are removed.<sup>224</sup> The FSB states that the Executive must set out a clear plan to mitigate high energy costs or, at the very least, outline the policy options which are within its control.<sup>225</sup> The NI Chamber of Commerce would like to see a clear strategy and plan to ensure that the network develops to allow timely connection of new demand and new loads on to the system. It suggests that were energy intensive business clusters to be targeted in certain geographical areas this would be a useful tool in the overall economic development.<sup>226</sup> The Specialist Advisor to the Committee informed members that a lot of the complex regulation relating to utilities has increased transaction costs, costs for businesses and costs for consumers.<sup>227</sup>
102. The CBI informed the Committee that, for many companies, energy is not the biggest issue. Representatives acknowledged that, for a small number of energy intensive companies where energy represents 10% or 20% of costs it is absolutely critical, particularly in manufacturing. However, they believe that, for a lot of companies energy might be 1% of costs and, although they may complain about it, energy is not a key issue.<sup>228</sup>
103. Invest NI acknowledges that electricity costs are much higher in Northern Ireland than in other parts of these islands and that this is increasingly becoming a challenge for the organisation. With the devolution of corporation tax the focus will be on attracting profit-related inward investment. The sectors being targeted are those such as advanced engineering, life sciences and pharma. These sectors will have a higher reliance on energy costs than those

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217 Appendix 2: IoD Oral Evidence

218 <http://niassembly.gov.uk/assembly-business/committees/enterprise-trade-and-investment/reports/> (Accessed 30th April 2015)

219 Appendix 2: NICC Oral Evidence

220 Appendix 2: Manufacturing NI Oral Evidence

221 Appendix 3: Dairy UK (NI) Written Submission

222 Appendix 2: Manufacturing NI Oral Evidence

223 Appendix 3: FSB Written Submission

224 Appendix 2: Manufacturing NI Oral Evidence

225 Appendix 3: FSB Written Submission

226 Appendix 2: NICC Oral Evidence

227 Appendix 2: Dr Leslie Budd Oral Evidence

228 Appendix 2: CBI Oral Evidence

currently attracted to Northern Ireland. Invest NI believes the cost of electricity will present a challenge to build a proposition around corporation tax.<sup>229</sup>

### **Electricity Network**

104. The FSB, IoD and CBI all highlighted the need to build the North-South Interconnector. The FSB considers it a priority to ensure security of supply in the future,<sup>230</sup> the IoD highlighted the high cost to consumers from not having the Interconnector<sup>231</sup> and the CBI considers both the North-South Interconnector and the restoration of the Moyle Interconnector to be priority projects to help electricity costs for business.<sup>232</sup> The Utility Regulator also emphasised the cost of not having the North-South Interconnector, stating that it is fundamental for the long term.<sup>233</sup>
105. The current state of the electricity grid is considered a major issue for businesses wishing to locate or expand in certain areas in Northern Ireland. The Institute of Directors highlighted what they consider to be serious issues relating to the stability of the grid and the availability of sufficient electricity at peak demand. The IoD believes that grid infrastructure is particularly stretched in rural areas where skilled jobs are in short supply. The organisation sees the existing grid as a significant restriction to economic growth and questions the adequacy of the grid to cope with the potential increase in inward investment that is hoped for following a reduction in corporation tax. The IoD calls for the establishment of joined-up strategic plans for the medium to long term aligned to economic and social policy requirements.<sup>234</sup> NI Chamber of Commerce agrees that there should be a strategic investment plan for grid infrastructure investment to facilitate and prioritise business growth.<sup>235</sup>
106. The Utility Regulator takes a 10-year outlook on adequacy of supply with scenarios for high, medium and low demand. Representatives informed the Committee that, in consideration of the devolution of corporation tax and the potential resulting rise in demand for electricity, it is important that this is fed into the next price control and into the Strategic Energy Framework. They said a mechanism is needed whereby the Utility Regulator can react swiftly to meet demand. However they cautioned against any approach which would result in the creation of significant stranded assets.<sup>236</sup>
107. DETI officials informed the Committee that the Minister shares members' concerns about investment in the 11 kilovolt (kV) and 33kV network. The Minister has made it clear to all involved including her department, that she expects to see a joined-up approach with permissible investment being made in a timely fashion and in a way that responds to the policy framework that she has set for renewable energy, which supports economic development. Officials informed the Committee that the Minister has received assurances from NIE that it is now ramping up the level of permitted investment in the grid at both 11kV and 33kV levels.<sup>237</sup>
108. NIE informed the Committee that it carefully targets grid investment to cater for the underlying load growth but that where loads increase due to a new factory, for example, there can be a load capacity issue which requires reinforcement. Such load increases are not predictable therefore, investment would be required across large parts of the network in anticipation of possible future point load growth. This can lead to the risk of stranded

229 Appendix 2: DETI/INI/ITI Oral Evidence

230 Appendix 3: FSB Written Submission

231 Appendix 2: IoD Oral Evidence

232 Appendix 3: CBI Written Submission

233 Appendix 2: Utility Regulator/DETI Oral Evidence

234 Appendix 3: IoD Written Submission

235 Appendix 2: NICC Oral Evidence

236 Appendix 2: Utility Regulator/DETI Oral Evidence

237 Appendix 2: DETI/INI/ITI Oral Evidence

investment if businesses do not locate or grow in that area. NIE states that the problem can be exacerbated where customers are located in rural areas.<sup>238</sup> Where NIE undertakes anticipatory investment it makes decisions taking account of the Department of the Environment (DoE) area plans, the volume of connection applications, engagement with Invest NI and other bodies and then tries to anticipate where the growth will be. That is then built into its forecast model.<sup>239</sup> NIE highlighted examples of anticipatory investment where Invest NI has provided funding to increase capacity at industrial parks. NIE believes that this approach could be extended by creating a “Power Park” in selected areas which could include transmission and distribution investment and would then be able to cater for significant levels of potential future loads. They state that there would be significant costs associated with the approach but that there is currently a window of opportunity to develop thinking on the suggestion so that provision could be made in NIE’s RP6 plans. They suggest convening a workshop in the first instance in order to explore illustrative scenarios and their scale of costs.<sup>240</sup> NIE further suggested that the proposal could be combined with the creation of enterprise zones.<sup>241</sup> DETI Energy Division emphasised that any investment in the electricity grid has to be paid for and would impact on costs. Energy Division compared potential connections to enterprise zones to the expansion of the gas network to the west as a major contributor to the expansion of the energy infrastructure, stating that, it would be good if somebody wanted to pay for a connection to an enterprise zone.<sup>242</sup>

### **Gas Network**

109. Manufacturing NI calls for greater availability for supply of gas at manufacturing clusters. They also state that the cost of any new gas network should be equitably shared across customer groups so that business is not ‘propping up’ the domestic consumer.<sup>243</sup> They do not however provide evidence that this is the case in current or future policy. Dairy UK (NI) considers the absence of gas to be putting companies located in the west at a significant cost disadvantage.<sup>244</sup> The Agri-food Strategy Board has called for the acceleration of the Gas to the West programme.<sup>245</sup> Although it supports the programme, the FSB believes a longer term approach is required, particularly in relation to the north-west and east Down.<sup>246</sup>
110. In anticipation of the extension of gas to the west, the FSB has called for training to be made available for small and micro-businesses to enable them to avail of the opportunities that will become available for gas engineers and boiler installers. They also believe consideration should be given to providing incentives for businesses to convert to gas.<sup>247</sup>

### **Water Network**

111. In a paper to the Committee for Regional Development<sup>248</sup> the Department for Regional development stated that drainage infrastructure throughout Northern Ireland is not sufficient to meet future requirements with the problems being more acute in greater Belfast. They state that Northern Ireland, and greater Belfast in particular, cannot continue to develop economically without growth in the capacity of its drainage infrastructure as the existing waste water infrastructure is not sufficient for a significant level of new development. They

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238 Appendix 3: NIE Written Submission.

239 Appendix 2: NIE Oral Evidence

240 Appendix 3: NIE Written Submission

241 Appendix 2: NIE Oral Evidence

242 Appendix 2: Utility Regulator/DETI Oral Evidence

243 Appendix 3: Manufacturing NI Written Submission

244 Appendix 3: Dairy UK (NI) Written Submission

245 Appendix 3: DARD Written Submission

246 Appendix 3: FSB Written Submission

247 Ibid

248 Appendix 5: DRD Written Submission the Committee for Regional Development

admit that a more strategic approach is required to ensure that economic growth is not constrained and they believe that it is essential that a strategic plan is developed urgently.

112. Manufacturing NI states that NI Water is inefficient and ineffective. They believe their members are being consistently over-charged and inaccurately billed.<sup>249</sup> They state that bills for all customers do not necessarily reflect consumption.<sup>250</sup> Representatives informed the Committee that the Utility Regulator's price control on NI Water identified that the company is 30% less efficient than a comparable company in GB.<sup>251</sup> The CBI believes investment in water and sewerage services is vital to both maintain existing assets and assist in economic development.<sup>252</sup>

## Business Regulation

### Business Regulation in Northern Ireland

113. Problems identified with the business regulatory environment include the volume of business regulations, the bureaucracy associated with these and the number of agencies and services associated with business regulation. Belfast City Council stated that the vast majority of businesses in the City do not avail of government support. It believes that many businesses avoid becoming involved with the many support initiatives available because they simply do not understand how to navigate them.<sup>253</sup> The Federation of Small Business states that its members feel there is no limit to the number of policies emerging which relate to business regulation and no quantification of the cost of regulation.<sup>254</sup> The FSB sees a reduction in business regulation as an efficient way of improving productivity and competitiveness thus helping economic recovery and job creation.<sup>255</sup> Grow NI informed the Committee that, whilst business regulation in Northern Ireland is well documented, it is voluminous and disparate.<sup>256</sup> The CBI believes business regulations need to be considered on a sector or by sector basis, stating that where regulations are unique to Northern Ireland, as they are in some cases, this can put Northern Ireland businesses at a disadvantage.<sup>257</sup>
114. In the Committee Business Survey 40% of respondents considered business regulation to be an area where improvement would have a high impact on business growth. Just over 20% considered the current state of business regulation to be poor. Comments on business regulation related to the need to cut bureaucracy and red tape.<sup>258</sup> The Committee Stakeholder Event also identified regulation as an issue for business. However it was conceded that much regulation is outside the power of the Executive to control as it comes from UK or EU legislation.<sup>259</sup>
115. On a more positive note, Belfast City Council commented that the UK is ranked as the 8th easiest country in which to do business. There were also a number of positive suggestions for how business regulation could be improved. The Agri-food Strategy Board calls for the development of an agreed regulatory environment which adds value, is proportionate and informed and which has a risk-based approach to regulation.<sup>260</sup> Grow NI would like to see

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249	Appendix 3: Manufacturing NI Written Submission
250	Appendix 2: Manufacturing NI Oral Evidence
251	Ibid
252	Appendix 3: CBI Written Submission
253	Appendix 3: Belfast City Council Written Submission
254	Appendix 2: FSB Oral Evidence
255	Appendix 3: FSB Written Submission
256	Appendix 2: Grow NI Oral Evidence
257	Appendix 2: CBI Oral Evidence
258	Appendix 4: Committee Business Survey – Headline Results
259	Appendix 4: Committee – Stakeholder Event
260	Appendix 3: DARD Written Submission

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a one-stop-shop for business regulation for all government bodies including Her Majesty's Revenue & Customs (HMRC).<sup>261</sup> The FSB believes the power of the Assembly should be used to reduce the regulatory burden.<sup>262</sup> It calls for a regulatory budget scheme to manage the flow of regulations and the management of Regulatory Impact Assessments.<sup>263</sup> The NI Chamber of Commerce would like to see a high level, Northern Ireland based better regulation business champion to highlight the challenges faced by business. It states that this was recommended in the DETI Review of Red Tape.<sup>264</sup>

116. There were suggestions from the NI Chamber of Commerce<sup>265</sup> and the FSB<sup>266</sup> for how EU legislation could be better handled. Both organisations believe that in Northern Ireland much more is done than is required. They believe compliance with EU legislation is achieved in other Member States at less cost and with much less bureaucracy. They believe the approach taken here is having a negative impact on the ability of businesses to compete with EU competitors. They state that an approach should be adopted to ensure that compliance is achieved in the best possible, least impact and most cost-effective way.
117. Two areas in particular where regulation was seen as having a negative impact on business related to employment law and planning permission. Findings in these areas are outlined below.

### **Employment Law**

118. Whilst welcoming moves to introduce the proposed Employment Reform Bill, a number of organisations raised issues in relation to employment law. Members of the NI Chamber of Commerce believe the cost of compliance with employment law has increased.<sup>267</sup> FSB members see it as a major barrier to growth. Representatives informed the Committee that up to one third of FSB members have decided not to employ people due to concerns around the business risk of taking on employees.<sup>268</sup> In its Jobs Plan the Institute of Directors states that employment regulations are an excessive burden on job creation. It calls for more effective impact assessments and for the costs of employment regulations to be minimised, especially for smaller companies.<sup>269</sup> The CBI calls for an Employment Law Framework which supports a flexible labour market. It sees labour market flexibility as a strength benefiting employees as well as business, stating that it has brought investment and jobs to Northern Ireland, ensured workers' benefit when firms grow and raised living standards for employees in good times. The CBI sees the moving of employment law powers to the new Department for the Economy as a major step in seeking to enhance labour market competitiveness.<sup>270</sup>
119. 119. Both the CBI<sup>271</sup> and the FSB<sup>272</sup> welcome the proposed Employment Reform Bill but expressed some disappointment at the omission of some provisions which they would preferred to have included. The FSB would like to see the inclusion of an Early Conciliation Scheme and Neutral Assessment Service along with an extension of the qualifying period for unfair dismissal from one year to two years. The FSB also believes the introduction of tribunal fees would weed out weak or vexatious claims which, it believes, can have a particularly negative effect on smaller businesses. The FSB believes this would also encourage mediation

261 Appendix 3: Grow NI Written Submission

262 Appendix 2: FSB Written Submission

263 Appendix 3: FSB Oral Evidence

264 Appendix 3: NICC Written Submission

265 Appendix 2: NICC Oral Evidence

266 Appendix 2: FSB Oral Evidence

267 Appendix 3: NICC Written Submission

268 Appendix 2: FSB Oral Evidence

269 Appendix 3: IoD Written Submission

270 Appendix 3: CBI Written Submission

271 Ibid

272 Appendix 3: FSB Written Submission

and the negotiated settlement of disputes. The CBI supports changes to the qualifying period for unfair dismissal and reform of industrial tribunals. It further calls for a broad protected conversations policy and reform of the collective redundancy period.

120. The CBI informed the Committee that redundancy periods in Northern Ireland are much longer than in the RoI and GB and unfair dismissal has moved from 12 months to 24 months in GB. Representatives also believe that, as there is no fee for industrial tribunals, this is resulting in a large number of weak and vexatious claims. They informed the Committee that a fee-type system has been introduced in GB which has reduced industrial tribunals by 70% as frivolous claims are removed from the system. The CBI stressed that there are people who are being unfairly treated by unscrupulous employers and those who have made mistakes and it is critically important that such people are provided with access to justice.<sup>273</sup> ICTU challenges this view suggesting that the introduction of fees would make industrial tribunals too expensive for most people to bring cases against what they term, 'an abusive employer'.<sup>274</sup>

### Planning Permission

121. The issues raised in relation to planning were, unsurprisingly, mostly related to the speed of decision-making. The IoD Jobs Plan calls for radically better performance within the planning system to improve certainty and speed up decision-making.<sup>275</sup> This view is supported by the CBI,<sup>276</sup> the FSB,<sup>277</sup> Grow NI<sup>278</sup> and NI Chamber of Commerce.<sup>279</sup> The NI Chamber of Commerce calls for a 10-week decision-making process for business applications.<sup>280</sup> Dairy UK (NI) agrees, stating that slow decision-making confers a competitive disadvantage on Northern Ireland companies compared to GB and other countries.<sup>281</sup>
122. Some hope was expressed that improvements can be made following the transition of planning responsibility to local councils. The CBI states that problems relating to speed and bureaucracy must be rectified by the new system if Northern Ireland wants to be globally competitive.<sup>282</sup> Mid & East Antrim Borough Council see the transfer of planning to local councils as an unprecedented opportunity to fundamentally transform local areas by regenerating them to deliver jobs, growth and rejuvenation.<sup>283</sup> However the FSB cautions that, if there is not consistency in the speed of decision-making between councils, some areas could suffer as a result of delays if businesses find it easier to develop in other areas.<sup>284</sup> Dairy UK (NI) suggests that the Executive should take responsibility for ensuring that service delivery in planning does not suffer as a consequence of the transition.<sup>285</sup>
123. DoE informed the Committee that planning support for business has been in the form of local area development plans which have included land zoning to provide suitable development land to meet economic development needs. With the transfer of responsibility for planning to local authorities, Local Development Plans (LDPs) will, in future, be prepared by district councils with DoE providing an oversight role. DoE states that it recognises the significance of business and enterprise to the local economy. It informed the Committee that its Planning and Economic Development policy seeks to facilitate and accommodate economic growth

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273 Appendix 2: CBI Oral Evidence  
 274 Appendix 3: ICTU Written Submission  
 275 Appendix 3: IoD Written Submission  
 276 Appendix 3: CBI Written Submission  
 277 Appendix 2: FSB Oral Evidence  
 278 Appendix 2: Grow NI Oral Evidence  
 279 Appendix 2: NICC Oral Evidence  
 280 Appendix 3: NICC Written Submission  
 281 Appendix 3: Dairy UK (NI) Written Submission  
 282 Appendix 3: CBI Written Submission  
 283 Appendix 3: Mid & East Antrim Borough Council Written Submission  
 284 Appendix 2: FSB Oral Evidence  
 285 Appendix 3: Dairy UK (NI) Written Submission



in ways that are compatible with social and environmental objectives and sustainable development. DoE will bring forward its new strategic planning policy framework to support the efficient and effective delivery of the reformed planning system. It believes the new approach will be more responsive to the priorities and needs of local communities including businesses and will provide a significant contribution to growing the economy across Northern Ireland.<sup>286</sup>

### **Environmental Law**

124. Both the FSB<sup>287</sup> and Dairy UK (NI)<sup>288</sup> commented on issues relating to the cost and bureaucracy associated with environmental legislation. The FSB states that the cost of conducting environmental impact assessments is both exorbitant and prohibitive for smaller businesses. The FSB further informed the Committee that, should a company wish to appeal the findings, there is no control for the company over the cost. It believes there should be some form of restriction over the financial aspect. Dairy UK (NI) also commented on the cost and bureaucracy associated with environmental legislation. It states the Northern Ireland Environment Agency (NIEA) is attempting to have a more proactive relationship with dairy companies. The organisation believes that, where it can be demonstrated that the risk is minimal, there should be a proportionate engagement by the NIEA which would result in less cost for dairy companies. Dairy UK (NI) also believes there is a lack of uniformity across Northern Ireland in NIEA's approach.

## **Accessibility for Businesses**

### **Access to Finance**

125. Access to finance was recognised as a priority in the Executive's Programme for Government. A number of reports produced by both the Department and the Executive aim to ensure that businesses with high growth potential are not unduly constrained by lack of investment.<sup>289</sup> These reports include the Economic Strategy, The report on Building a Prosperous and United Community and a review of access to finance for businesses which was undertaken by the DETI Economic Advisory Group (EAG). The EAG report published in 2013 set out 13 recommendations to be implemented by banks, businesses and government in order to improve the finance environment for SME businesses.<sup>290</sup> While DETI has no statutory control of the banking sector, the Minister of Enterprise, Trade & Investment and the Minister of Finance & Personnel continue to meet with representatives of the main banks in Northern Ireland to emphasise the importance of supporting business development and growth and to encourage banks to assist indigenous businesses in the current economic climate.<sup>291</sup>
126. In written evidence to the Committee, the Department recognised that the situation in Northern Ireland with regards to access to finance has been particularly challenging given the legacy of property overhang, the structures of bank ownership in Northern Ireland and the limited power that the Northern Ireland Executive has had to address bank lending given it is not a devolved power.<sup>292</sup> A key recommendation from the EAG Access to Finance Review was the establishment of an independent access to finance panel to oversee implementation of its recommendations. Work is ongoing in areas that were highlighted as needing improvement including the effectiveness of national initiatives, the property overhang issue and better

286 Appendix 5: DoE Response to Committee Queries on Planning

287 Appendix 3: FSB Written Submission

288 Appendix 3: Dairy UK (NI) Written Submission

289 Ibid

290 Appendix 3: DETI Written Submission.

291 Appendix 3: DETI Written Submission

292 Appendix 3: DETI Written Submission

communication by banks.<sup>293</sup> The NI Chamber of Commerce noted in its written evidence that encouraging and supporting investment in dynamic businesses including access to finance is critical to driving the rebalancing of the economy which would also improve productivity and encourage competitiveness.<sup>294</sup> NI Chamber also believes that the right environment needs to be created to ensure that loans and other equity products can be accessed easily by businesses.<sup>295</sup> The Federation of Small Businesses noted in oral evidence that one of simplest things that the Executive could do is to encourage the banks to look at maintaining the branch network which FSB members identified as being extremely important.<sup>296</sup>

127. InterTradelreland, in written evidence to the Committee, stated that small firms cannot find their way through the maze of how to access various forms and finance and as a result it recently established a new “Funding for Growth” Scheme which organises a series of workshops and information clinics to assist companies.<sup>297</sup>
128. In its oral evidence to the Committee, the Department noted that no one would claim that access to finance is solved but when results are compared to a few years previous, many more firms are reporting that they are in growth and have access to appropriate finance.<sup>298</sup> The Department also stated that there is now a much higher success rate amongst SMEs in applying for finance.
129. In the Committee Business Survey, Access to Finance was identified as having an impact on business growth amongst 45% of respondents. 23.6% of respondents believe that access to finance has a high impact on business and a current poor provision with only 22% indicating that the current quality of provision in Northern Ireland was ‘Excellent’ (3%) and ‘Good’ (19%) compared to a combined 78% who believe that current provision is ‘Fair’ (42%) or ‘Poor’ (36%).<sup>299</sup> One business owner in the Derry City and Strabane District Council area responded that access to finance was the biggest issue for their business at the moment.<sup>300</sup> The Department informed the Committee of a number of initiatives and programmes which are currently available to SMEs and other businesses in Northern Ireland including the Business Bank, the Enterprise Finance Guarantee (EFG), the Enable (Wholesale) Guarantees and the Start Up Loans Initiative.

### **Access to Markets**

130. Belfast City Council noted that the population of Northern Ireland is one of the smallest in Europe but that being a member of the European Union gives companies based here access to a huge European market. This is important according to Belfast City Council as the size of the domestic market affects the extent to which companies must focus on exporting as opposed to selling domestically.<sup>301</sup> The Department, in its written submission, stated that the Northern Ireland Economic Strategy outlines that lowering the rate of corporation tax would help attract more added-value FDI and integrate companies into the local economy through supply chains and other linkages. Local SMEs will gain from working in partnership with new multinational companies attracted by low corporation tax particularly in the pharmaceutical and semiconductor industries.<sup>302</sup> However, Belfast City Council cautioned that, as production

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293 Appendix 3: DETI Written Submission  
 294 Appendix 3: NICC Written Submission  
 295 Ibid  
 296 Appendix 2: FSB Oral Evidence  
 297 Appendix 2: DETI-Invest NI-InterTradelreland Oral Evidence.  
 298 Ibid  
 299 Appendix 4: Committee Business Survey Headline Results.  
 300 Ibid  
 301 Appendix 3: Belfast City Council Written Submission.  
 302 Appendix 3: DETI-Invest NI- InterTradelreland Written Evidence.

supply chains are becoming increasingly global, it should not be presumed that FDI will automatically link into existing local supply chains.<sup>303</sup>

131. Dairy UK (NI) called on the Northern Ireland Executive to establish Northern Ireland specific bilateral trade agreements with countries with which there would be trade advantages for the NI agri-food sector.<sup>304</sup>
132. Almost half of all respondents to the Committee's Business Survey (49%) identified 'Access to Markets' as having a high impact on their business growth ranking second behind Government Financial Support (51%).<sup>305</sup> A combined 26% of businesses surveyed believe that the current opportunities available to business to access markets are either 'Excellent' (3%) or 'Good' (23%) with 74% believing that current provision is 'Fair' 59% or 'Poor' (15%).<sup>306</sup> Businesses who responded to the survey suggested that Social Enterprises like SMEs and Microbusinesses need better access to public tendered opportunities and that, at present, procurement was difficult for SMEs.<sup>307</sup>

### **Access to Suppliers**

133. Access to Suppliers was highlighted by DARD and the Agri-Food Strategy Board which suggest that a change of mind-set is required to build relationships within the sector and reinforce the message of a single supply chain. This process will require trust, confidence and good communication across the entire supply chain with the Agri-Food Strategy Board suggesting that the Executive play a role in terms of providing advice, guidance and support for those who participate in supply chain initiatives.<sup>308</sup>
134. 30% of respondents to the Committee Business Survey believe that Access to Suppliers had a high impact on their business with a further 29% believing it had a moderate impact.<sup>309</sup> With regards to current provision of access to suppliers, one third of respondents (33%) stated that it was either 'Excellent' (4%) or 'Good' (29%). The majority of respondents believe that current provision was 'Fair' (55%).<sup>310</sup>

## **Political Considerations**

### **National Political Climate**

135. In May 2015, The Prime Minister, David Cameron, upon re-election as Prime Minister, reaffirmed a pre-election pledge that, if the Conservatives were re-elected to government in 2015, a referendum would be held on the UK's continued membership of the European Union in the early stages of the new parliament.<sup>311</sup> This referendum is scheduled to take place by 2017.
136. 136. The majority of written submissions that highlighted the national political climate as a key factor made reference to the UK In/Out Referendum as a cause for major concern. Manufacturing NI, Dairy UK (NI) and CBI all referred to the possible exit of the UK from the EU in their submissions to the Inquiry with Manufacturing NI recognising that it could become

303 Appendix 3: Belfast City Council Written Submission

304 Appendix 3: Dairy NI Written Submission

305 Ibid

306 Ibid

307 Appendix 5: Survey response summary

308 Appendix 3: DARD Written Submission

309 Ibid

310 Ibid

311 Speech made by Prime Minister The Rt Hon. David Cameron MP, Downing St. 8 May 2015. Available at: <https://www.gov.uk/government/speeches/election-2015-prime-ministers-speech> [Accessed 14 May 2015]

'an issue for their members who export'.<sup>312</sup> As regulations concerning transatlantic flights are negotiated at the EU level this could hinder businesses wanting to export to the North American market. Dairy NI noted that a debate on membership of the EU will 'not be helpful in the efforts to secure new customers and a prolonged debate will certainly have adverse effects on the willingness of some customers to do business with companies that are entirely UK centric'.<sup>313</sup> Invest NI informed the Committee that uncertainty relating to EU membership is creating difficulties both for existing investors and in working to attract new investment. Invest NI also stated that:

*"Were the UK to leave the EU following a referendum, this would place considerable uncertainty at best on Northern Ireland's FDI prospects."*<sup>314</sup>

137. The CBI believes that continued UK membership of a reformed European Union is in the best interests of Northern Ireland's long-term future for maximising global investment.<sup>315</sup> The CBI stated that, as the only region of the UK which has a land border with another EU Member State, the business community and long term economic prospects are particularly susceptible (to being affected).<sup>316</sup> The CBI believes that Northern Ireland remaining within a reformed EU will be a key determinant for potential investors with the main reason for companies relocating to Northern Ireland being access to the UK and wider EU markets.<sup>317</sup> The CBI also urges the Northern Ireland Executive to outline its position on a UK exit from the EU in line with the other devolved administrations, the Westminster Government and the Irish Government which have all publicly stated their positions regarding the potential exit of the UK from the EU.<sup>318</sup>
138. The Committee's Specialist Advisor notes that withdrawal from the EU would affect devolved nations and regions that are sites of increased FDI within the EU. Dr Budd also notes that, should the UK leave the EU, Northern Ireland could expect Gross Domestic Product (GDP) to be approximately 3% lower and unemployment levels to increase by a proportionate amount. Other negative impacts envisaged by Dr Budd include reduced cross-border trade, the loss of EU economic development programmes and a decreased demand for domestic production and services. Dr Budd notes that the Republic of Ireland's economy has a successful record in attracting FDI from companies seeking to access the EU's markets.<sup>319</sup>
139. It is apparent that the performance of the Northern Ireland economy has been underpinned by funding support from the EU. Dr Budd notes that the grand total of funding received by Northern Ireland from Europe during the period of 2007-2013 was £2,427 million. This figure accounts for 8.4% of GDP for Northern Ireland of which nearly two thirds of funding received from Europe is for agricultural purposes.<sup>320</sup> The current funding stream which runs from 2014-2020 is central to the successful implementation of the Northern Ireland Economic and Innovation Strategies. This funding has assisted with the integration of the Northern Ireland economy with others in the EU and has promoted cross-border economic co-operation and growth in FDI. If the UK was to leave the EU according to Dr Budd, these funding streams would no longer be available.<sup>321</sup> It is unclear if and to what extent this funding deficit would be redressed by the Westminster Government.

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312 Appendix 2: Manufacturing NI Oral Evidence  
 313 Appendix 3: Dairy NI Written Submission  
 314 Appendix 2: Invest Northern Ireland Oral Evidence  
 315 Appendix 3: CBI Written Submission  
 316 Ibid  
 317 Ibid  
 318 Appendix 2: CBI Oral Evidence  
 319 Appendix 5: Dr Leslie Budd, Written Submission.  
 320 Ibid  
 321 Ibid

### Regional Political Climate

140. Overall, the issue of the regional political climate was considered the most inhibiting factor in the Committee Business Survey. It was cited as having a high impact on business growth by 43% of respondents and 54% of respondents considered the current local political climate to be poor. One survey respondent commented that the devolution of tax varying powers would send a positive signal that the devolved administration is capable of the type of far-reaching strategic thinking that can deliver real economic benefit. Another stated that it would have a positive impact if politicians can agree. More negative comments related to the amount of time spent on what are considered less important issues and a perceived lack of direction and leadership.<sup>322</sup>
141. The IoD,<sup>323</sup> CBI,<sup>324</sup> NI Chamber of Commerce<sup>325</sup> and Belfast City Council believe a stable political environment is essential to inspire business confidence. They also see strong, united political leadership as being crucial if inward investment is to be encouraged and secured. In oral evidence to the Committee, CBI Representatives stated:
- “...strong united political leadership is crucial to show that Northern Ireland is politically stable and, importantly, an economically ambitious place in which to do business. That should include a clear and unambiguous focus on delivering a truly shared future and creating an environment that will attract and retain the talent necessary to help to inform the Northern Ireland economy.”<sup>326</sup>*
142. The Committee stakeholder event revealed that businesses believe that, for a more joined-up approach to economic development to work, there needs to be a change in strategic economic thinking from an approach that focuses on the election cycle to one which is more long-term. Participants agreed that political instability harms business confidence and is detrimental to investment.<sup>327</sup>

## Society & Community

### Labour Costs

143. Labour costs were highlighted in a number of submissions to the Committee. Manufacturing NI supports the basis for minimum wage levels<sup>328</sup> as does the Federation of Small Businesses who believe that the more businesses that offer the living wage to its employees the better it will be for Northern Ireland although they are cautious to add that it should not be made mandatory for employers at this time.<sup>329</sup> FSB members will begin to offer the living wage as soon as they are able to do so because of the value they place in their staff.
144. 41% of respondents to the Committee Business Survey believe that an improvement in Labour Costs in Northern Ireland will have a high impact on their business growth. 60% of respondents stated that current Labour Costs were ‘Fair’ with just over one quarter of those surveyed (26%) stating that current provision was ‘Excellent’ or ‘Good’.

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322 Appendix 4: Committee Business Survey – Headline Results

323 Appendix 2: IoD Oral Evidence

324 Appendix 3: CBI Written Submission

325 Appendix 3: NICC Written Submission

326 Appendix 2: CBI Oral Evidence

327 Appendix 4: Committee Stakeholder Event

328 Appendix 3: Manufacturing NI Written Submission

329 Appendix 3: FSB Written Submission

### **Labour Relations**

145. Northern Ireland ranks forty-fifth for labour market efficiencies compared with GB who rank fifth. Manufacturing NI believes that there are clear differences that need to be bridged including providing a fit for purpose employment law regime.<sup>330</sup>
146. Manufacturing NI noted that the resources made available to the Labour Relations Agency should be increased to allow them to embed good employment law practice in SMEs which do not have access to in-house HR advice.<sup>331</sup>
147. The Committee Business Survey highlighted that 4% of business owners believe that the current provision of labour relations mechanisms is 'Excellent' with over half stating that it is 'Fair'. 21% of businesses stated that improvement in the area of Labour Relations in Northern Ireland would have a high impact on their business.

### **Arts, Culture and Leisure**

148. Arts Culture and Leisure was not prominent in either written or oral submissions to the Committee. Belfast City Council in its written submission noted that an ability to attract investment depends on factors such as health, equality, culture and entertainment, governance, crime and safety and the environment.<sup>332</sup> Mid and East Antrim Council stated in written evidence that it is focused on ensuring that residents within that Council area have a high standard of these types of facilities will help differentiate Northern Ireland from the rest of the world as an attractive place to invest, work and live.<sup>333</sup>
149. The Business Survey conducted by the Committee identified that 20% of respondents believe that Arts Culture and Leisure has a high impact on business growth but the majority of respondents believe that the current provision is only 'Fair' (47%) with one third of respondents (33%) believing that current provision is 'Excellent' or 'Good'.<sup>334</sup>

### **Living Standards**

150. The 2013 Good Growth for Cities Index published by PricewaterhouseCoopers ranks Belfast as ninth amongst the UK's top-10 cities against factors contributing to a good quality of life. These factors included crime, safety & security and affordability. Whilst Belfast was rated first in terms of the growth of housing stock,<sup>335</sup> it was rated the worst city in the UK in terms of social inequality and was considered average in terms of CO2 emissions.<sup>336</sup>
151. In its submission to the Committee, the Department for Regional Development outlined that living standards within Northern Ireland have persistently lagged behind the rest of the UK with social exclusion levels well above other regions.<sup>337</sup> As such, many households within Northern Ireland live in poverty with joblessness driven by both skills deficiencies and a lack of employment opportunities. In trying to resolve these issues, the Regional Economic Strategy, published by the Executive Sub-Committee on the Economy in 2012, is trying to rebalance and rebuild the economy and to promote a more balanced regional growth across all parts of Northern Ireland. This strategy has important implications for transport and requires a particular focus on building social and economic connectivity at the regional and local level.<sup>338</sup>

330 Appendix 3: Manufacturing NI Written Submission

331 Appendix 3: Manufacturing NI Written Submission

332 Appendix 3: Belfast City Council Written Submission

333 Appendix 3: Mid and East Antrim Borough Council Written Submission

334 Appendix 4: Committee Survey Headline Results

335 Appendix 3: Belfast City Council Written Submission

336 Ibid

337 Appendix 3: Department for Regional Development Written Submission

338 Ibid

152. The newly formed Mid and East Antrim Council highlighted that it is focused on ensuring that the residents of Mid and East Antrim enjoy a high standard of living including enjoying the benefits of fast and efficient public transport routes; universal, fast and reliable broadband and mobile network coverage; affordable housing; and leisure and cultural facilities.<sup>339</sup> All these will differentiate Northern Ireland from the rest of the world and if replicated across the region will make Northern Ireland an attractive place to invest, work and live.
153. Belfast City Council recognises that the ability to attract investment depends on factors such as the quality of life rather than just economic factors.<sup>340</sup> The Council also suggested that the Committee should consider how it can work with and influence other departments to improve the region in terms of factors such as health, equality, culture and entertainment, governance, crime and safety and the environment.<sup>341</sup>

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339 Appendix 3: Mid and East Antrim Council Written Submission

340 Appendix 3: Belfast City Council Written Submission

341 Ibid

# Conclusions & Recommendations

## Integration of Government Structures and Policies

### Overview of the Current Economic Development Landscape

154. The most significant aspect of this Inquiry has been the understanding that Committee members have gained of the extent to which a wide range of factors from a wide variety of areas of government policy impact on the ability of businesses to survive, prosper, grow and create employment. Many key policies are complementary. They are intimately interrelated and interdependent and have the potential to influence the economy for better or for worse depending on how these interdependencies and interrelationships are managed. This includes policies for the economy and employment; policies for education and skills; policies for infrastructure, both real and virtual; and policies for society and community.
155. Evidence to the Committee in the course of the Inquiry has demonstrated that there are many good policies, strategies, initiatives and plans in place which can bring considerable benefit to the economy. There is also evidence that some of these have taken account of wider issues in their development. For example, one of the Regional Development Strategy aims is to connect people to places of work. The Sustainable Transport Future strategy is working to develop a more integrated transport infrastructure. The Department for Employment & Learning is working to increase investment in key economic drivers and there are many initiatives in place to support the development of skills in sectors of identified need. A number of reviews have been undertaken which demonstrate a willingness within the Executive to further consider a more integrated approach to developing the economy. These include reviews of business red tape, competitiveness, access to finance and careers advice.
156. Despite the considerable good work that has been undertaken and is planned for the future, it is recognisable from the evidence of key business representative organisations in particular, that the strategic approach to long-term economic development in Northern Ireland is not sufficiently visionary and not sufficiently integrated to maximise the benefits that a reduced rate of corporation tax can bring in the long-term. Key policy areas where this was apparent related to enterprise, investment and employment; education and skills; and infrastructure. The Committee also considers it essential that, in order to address the issues and ensure a bottom-up aspect as well as a top-down approach, society and community factors must be taken into consideration. This bottom-up approach is essential to address issues such as long-term unemployment and youth unemployment. These policy areas are interdependent and interrelated. Changes to one factor can impact on others therefore all policy areas must be considered together in any overall strategy for economic development.
157. There are significant gaps between the skills being developed through universities and FE colleges and those needed by business. These gaps are particularly manifest in the engineering and ICT sectors and are also apparent in the large numbers of young people with good qualifications in professions such as teaching and nursing who have to leave Northern Ireland every year to seek employment elsewhere. It is also clear that a lack of appropriate infrastructure, especially outside Belfast, is creating considerable difficulties for job promotion in many areas. The efforts of Invest NI to promote and create jobs in more rural council areas has been criticised however the Committee recognises that difficulties are created for Invest NI in attempting to promote and attract investment to local authority areas where there is: poor transport infrastructure; poor broadband provision; a shortage of appropriate accommodation for business; and/or high costs associated with, or even an absence of, appropriate electricity infrastructure to meet business needs.
158. SMEs are facing difficulties in understanding how to access advice and support. It is generally accepted that advice and support is available but this is needed over a wide range of issues from a large number of sources. Small business operators are time poor and have



difficulties in understanding who to go to in order to seek help. Advice and support may be required on a variety of issues ranging from advice on areas such as available financial support from Invest NI; exporting; business growth; innovation and R&D; access to finance; and business technical support, to internal matters such as HR; training & skills; employee relations; finance & accounting; management; and ICT and telecoms support.

159. Uncertainty creates problems for business and for those working to promote Northern Ireland as a region in which to invest. The slow speed or, in some cases, absence of decision-making within the Executive and departments results in a lack of confidence for business and is inhibiting business growth. Areas of particular concern for business include: key transport infrastructure projects such as the A5 and A6; key electricity infrastructure investments such as a grid strengthening and the North-South Interconnector; speed of planning decisions; uncertainty over whether industrial derating and the Small Business Rate Relief Scheme will be retained in the long-term; and the lack of a decision relating to the rate and date for corporation tax devolution.

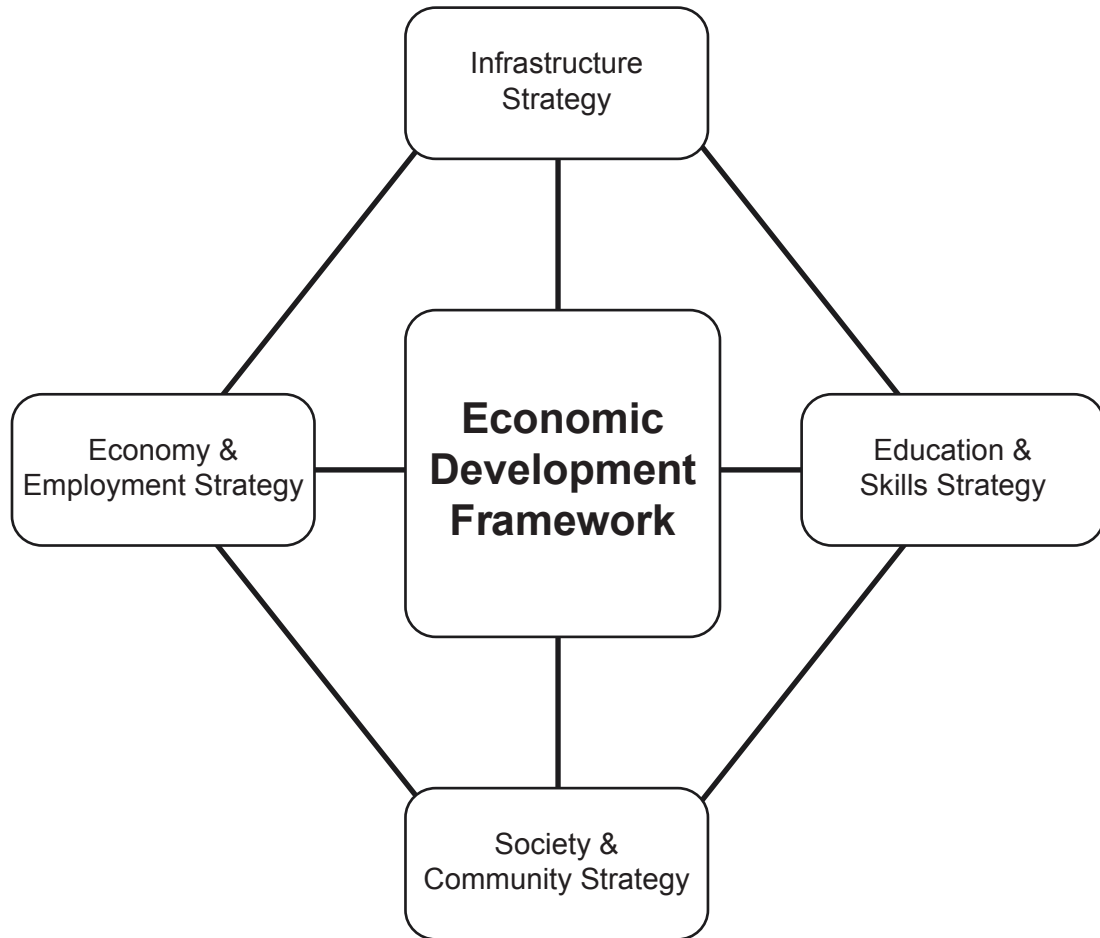
### **Vision and Strategy for Economic Development**

160. The Committee is of the view that the wide range of issues and problems identified in the course of the inquiry are indicative of a higher level problem. These issues will not be rectified by addressing the symptoms. In order to address the identified issues, the Executive must address the cause.
161. Evidence to the Committee has demonstrated that, although there are many examples of joined-up approaches in policy development between departments, there is no overarching structure or mechanisms to ensure a consistent, integrated approach across Government. This can lead to major opportunities being missed, failure to address important gaps in provision and to unintended negative consequences where a policy or strategy in one area of government can impact on another. Structures, policies and process must be integrated both horizontally across government departments and vertically at all levels of government. Evidence has demonstrated that absence of horizontal integration of policies across the Executive has impacted negatively on important factors such as skills, business regulation, energy, and water. Absence of vertical integration of policies has impacted negatively on key factors such as sub-regional balance in economic development, transport infrastructure, government support to businesses and electricity networks.
162. The Executive's Investment Strategy for Northern Ireland 2011-2021<sup>342</sup> aimed to provide a £5 billion stimulus to support economic recovery and growth and to maximise the social benefits of investment. The Committee has concerns that, despite the intentions of the Investment Strategy and its investment priorities up to 2015-2016, there remains many areas of strategic importance to the economy on which the Investment Strategy is yet to impact significantly. This includes strategic road infrastructure, connectivity to airports and energy infrastructure.
163. In order to address the many and varied issues raised in the Inquiry a holistic approach to economic development is required. This must start with a long-term shared vision which clearly articulates what the Northern Ireland economy will look like in the long-term future. The Committee is conscious of the fact that, as the environment changes in the long-term the direction of that vision may change. It is therefore important that the vision remains appropriate. It is therefore recommended that, **the Executive must articulate and implement a rolling 20-year shared Vision & Strategy for Economic Development. The vision and strategy can be renewed and updated through each Programme for Government period. There must be a full integration between the strategy for economic development and the Investment Strategy (Recommendation 1).** This is the single key recommendation from the Inquiry. Recommendations 1a to 1e provide a framework and process for developing and achieving the Vision for the Economy.

342 [www.sibni.org/investment\\_strategy\\_for\\_northern\\_ireland\\_2011\\_-\\_2021.pdf](http://www.sibni.org/investment_strategy_for_northern_ireland_2011_-_2021.pdf) (Accessed 2nd June 2015)

164. The Executive's Investment Strategy should be an overarching component of the Vision & Strategy Economic Development. It should be developed to reflect the key economic development priorities. **In developing the Strategy for Economic Development, full consideration should be given to what can be achieved through the Investment Strategy at a time of reduced resources in order to complete those projects which have the greatest potential to positively impact on economic development (Recommendation 1a).**
165. The Committee's visit to the Stuttgart Region provided substantial evidence to demonstrate that an integrated approach to economic development, not only works, it is essential to achieve the high levels of business growth and employment required to make the devolution of corporation tax worthwhile. Stuttgart Region demonstrated how the context of a partnership approach, inclusive of all key stakeholders, can provide an invaluable platform from which to launch a vision for economic development and within which to realise such a vision.
166. The Strategy for Economic Development will require agreement at Executive level with input and commitment from a wide range of stakeholders from inside and outside government. This should include:
- The Executive;
  - Relevant government departments;
  - Local government;
  - Education and Skills sector representatives;
  - Business representative organisations;
  - Employee representative organisations; and
  - Community representative organisations.
167. If full buy-in from this wide range of stakeholders is to be achieved they must all be included in the development and implementation of the Vision & Strategy for Economic Development. For this reason, **a steering group should be established which includes representatives from all levels of government; education and skills sectors; and business, employee and community representative organisations. The steering group will have the role of developing and implementing the 'Vision & Strategy for Economic Development' (Recommendation 1b).** The Committee recognises the role played by the Economic Advisory Group (EAG)<sup>343</sup> however the remit of the EAG is solely an advisory role to the Minister of Enterprise, Trade & Investment rather than to work in partnership to support the wider Executive. It is also business led with little input from the skills sector, SMEs or employee or community interests. The EAG would however form an appropriate starting point for the formation of a steering group.
168. To develop and implement the Vision for the Economy will require considerable time and resources. A framework must be put in place to provide the infrastructure for achieving the vision. It must be developed with full consideration of the wide range of factors that can influence and impact on long-term economic development. **The Strategy for Economic Development must be driven by a Regional Economic Development Framework with integrated strategies for economy & employment; education and skills; infrastructure; and society & community. Working groups comprising key stakeholders will be required to develop and monitor the implementation of strategies (Recommendation 1c).** The top level of the Economic Development Framework is represented at Figure 1. Each strategy should include its own framework at the next level. These are considered later in the report.

343 [www.eagni.com](http://www.eagni.com) (Accessed 2nd June 2015)

**Figure 1. Top Level Economic Development Framework**

169. As part of the Regional Economic Development Framework the Committee envisages each Programme for Government cycle being used to review and update the Vision for the Economy for the next five year period and to set five-year objectives and targets for each of the strategies. A considerable advantage of such a framework and overall strategy for business is that businesses will be able to see where particular policy areas are considered a priority in the PfG period and which are not. This should provide a level of certainty for businesses to enable them to plan ahead.
170. Evidence to the Committee has demonstrated that the current structures, systems and processes for economy & employment; education and skills; infrastructure; and society & community are not sufficiently integrated to take account of their interrelationships and interdependencies. Many gaps in provision exist, there is confusion within business relating to what is available and how to access it and the speed of decision-making can be highly frustrating for business and can inhibit business performance. Businesses outside of Belfast often believe, rightly or wrongly, that they are considered second class in terms of the infrastructure that is in place and the advice and support available to them. Therefore, if a truly integrated approach to economic development is to be realised, **organisational structures, policies and processes which are considered key to the future of the economy must be identified and prioritised. Those considered high priority should be strategically reviewed to ensure they provide the horizontal, vertical and geographical integration required to provide the Regional Economic Development Framework to drive the Strategy for Economic Development (Recommendation 1d).**
171. The strategic review should identify good practices and areas for improvement. Areas for improvement must be considered and plans for improvement put in place but, equally, good practices must also be considered to ensure they are capable of being integrated into the overall framework. Therefore, following the review of structures, policies and processes, **an overall strategy to achieve horizontal, vertical and geographical integration of priority**

**policies and strategies should be developed and implemented to address identified gaps and to ensure the Regional Economic Development Framework is appropriate at all levels of regional and local Government and across all local authorities (Recommendation 1e).**

172. The acceptance of this key recommendation will ensure that the good work and achievements to date to grow the economy and create jobs is built on and focused in the most effective way in the future. It will also ensure that important gaps in existing provision, whether by business size, business sector, business experience or geographical location are prioritised and addressed as appropriate.

#### **Membership of the European Union**

173. Evidence to the Committee demonstrates a high level of uncertainty among businesses about the future in relation to UK membership of the EU. This uncertainty has the potential to inhibit inward investment while businesses do not know whether or not the region in which they may be considering locating will remain a member of the EU after 2017. Invest NI is also concerned that, although the devolution of corporation tax will bring the opportunity for a step change in how Northern Ireland is promoted, uncertainty about future EU membership will restrict its ability to promote Northern Ireland as a destination for inward investment. The Committee recognises that Northern Ireland currently benefits considerably from EU membership as demonstrated by Dr Leslie Budd in his briefing paper to the Committee on the consequences for the Northern Ireland economy of a UK exit from the EU.<sup>344</sup> The Committee also recognises that the Westminster Government will not make a decision on a date for a referendum until a deal is reached in Europe in relation to membership. Any future debate on EU membership must take into account the impact of the result of a referendum on Northern Ireland. Therefore **in order to inform the debate on European Union membership, the Executive must provide a detailed analysis of the impact on the Northern Ireland economy of a UK exit from the European Union. This must be based on robust economic data. (Recommendation 2).**

#### **Setting the Date and Rate for Corporation Tax**

174. The Committee heard evidence throughout the Inquiry of the need to set a date for corporation tax devolution and a rate for corporation tax post devolution. The Committee agrees that the setting of a date and rate at the earliest opportunity would be highly advantageous for the promotion of Northern Ireland and would send a clear message that the region is open for business. The Committee recognises the need to have a full and accurate assessment of the cost of reducing corporation tax on the block grant and the resulting impact on public services before setting a rate for corporation tax. This is especially important at a time of reducing resources and future budgetary uncertainty. It is also important that there is a high degree of confidence that conditions are right before a date for any reduction in corporation tax is set. **It is essential that the Executive works with HM Treasury to identify the overall cost of reducing corporation tax so that it can get to a position where a rate and a date for devolution can be set at the earliest feasible opportunity (Recommendation 3).**

#### **Developing Strategies within the Economic Development Framework**

175. The Committee has made a high level recommendation which calls for a fundamental change in how the long-term development of the economy is brought forward. Until a vision is in place, reviews have been undertaken and an appropriate framework and strategies established, it would not be appropriate for the Committee to make recommendations on what should be included in strategies within the Framework. As stated earlier, each of the policy areas identified is related to and dependent upon factors in other policy areas. Therefore the Framework must be developed holistically based on the long-term vision.
176. Much of the evidence coming to the Committee, whilst relevant to the inquiry and important for economic development, relates to policy areas which are outside the direct remit of the

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344 Appendix 5: Dr Leslie Budd, Written Submission

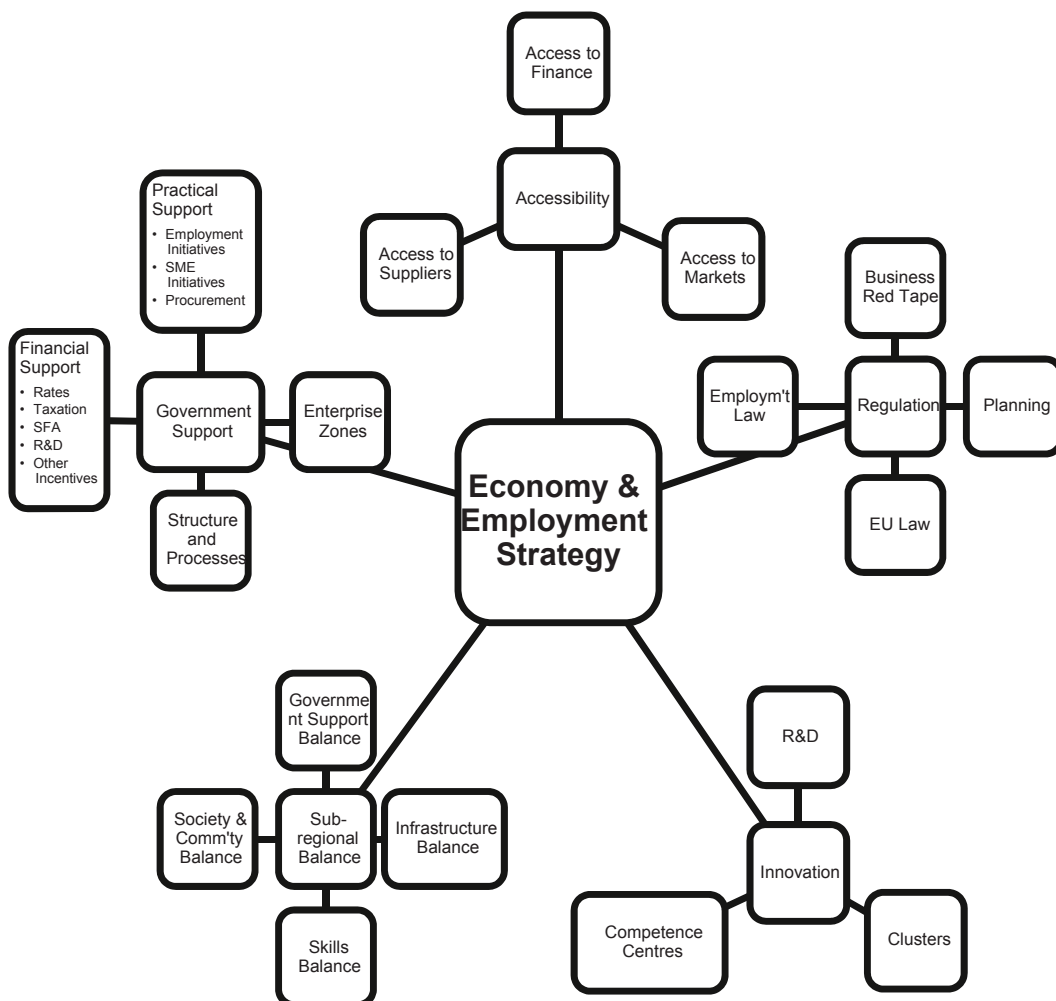
Committee. However, given the breadth and depth of the evidence received during the inquiry, it is important that the Committee comments on these areas. The following sections consider evidence relating to the four strategies recommended by the Committee and summarise areas which, in the Committee’s view, should be considered during the development of these strategies.

## Economy & Employment Strategy

### Overview of Economic Development & Employment

177. A strategy for economy and employment should focus on aspects of policy including how government can, in the future, provide both financial and practical support to businesses of all sizes and locations to help them grow and create employment. It must consider how access to finance, suppliers and markets can be managed and improved. The strategy should consider how business regulation can be balanced to meet the needs of business, comply with legislation and not prove detrimental to the needs of employees. Innovation and R&D are increasingly important factors in supporting businesses to grow and to attract inward investment.
178. A key strand of the strategy should consider how the Executive works to achieve the appropriate sub-regional balance in economic development. A considerable amount of evidence has demonstrated that significant gaps exist sub-regionally in relation to infrastructure, skills and support available to business and to attract inward investment,
179. Figure 2 presents the strands which should be considered when developing an Economy and Employment Strategy.

**Figure 2. Framework for an Economy & Employment Strategy**



180. The Committee welcomes efforts by NISRA to develop the capacity and expertise to enable a full set of Economic Accounts to be produced to international standards. The development of the Economy & Employment Strategy must be supported by robust, long-term economic data at both regional and sub-regional level. DETI and DFP must provide certainty that the economic data collected and presented is accurate, complete, timely and appropriate to the needs of the Economy & Employment Strategy. **In making any future economic decisions, including a decision on the devolved rate of corporation tax, DETI and DFP must be confident that the available economic data which is relied upon is robust, accurate, complete, timely and appropriate (Recommendation 4).**

#### **Government Support for Economic Development**

181. Four aspects to the Government Support strand of the strategy are considered. These are Structures and Processes; Practical Support; Financial Support; and enterprise zones.
182. Structures and processes are considered in the overall Vision for the Economy but they are of particular concern in relation to Government Support for economic development. It must be demonstrated that the structures and process that are in place can achieve the right balance of support for inward investment and support for indigenous businesses. They must achieve the right balance between supporting large businesses and supporting the long-term growth of SMEs and high-potential start-ups. The right balance must be achieved between providing direct financial support for job creation and supporting other activities such as R&D and export incentives which can generate employment indirectly in the longer term. Structures must also be capable of reacting quickly to the needs of business so as to ensure opportunities are not lost through delays within government.
183. Export performance gives cause for concern. The Committee welcomes work by the Department to develop an export plan in partnership with key stakeholders at regional and local level inside and outside government. The Committee also supports the Department's aims to elevate the importance of exports in local economic development plans. The Department recognises the high reliance on exports to the RoI as a key trading partner and, as highlighted by NI Chamber of Commerce, this market has suffered considerably recently due to the economic downturn. **The Export Plan and other strategic and local economic development plans along with other strategies and plans relating to the economy and employment must fully consider the relationship between Northern Ireland and the Republic of Ireland in supporting economic development and job creation through maximising cross-border opportunities (Recommendation 5).**
184. The concept of enterprise zones has been mooted for many years in Northern Ireland however there are still no active enterprise zones operating here. The Committee welcomes the plan to establish an enterprise zone in Coleraine. This provides an opportunity to pilot the concept and to consider if and how enterprise zones can be rolled out to other areas. Consideration should be given to how many enterprise zones Northern Ireland can support, where they should be best located and what will be provided to differentiate them. Suggestions to the Committee have included guaranteed access to electricity and gas networks; high speed broadband and mobile connectivity; and incentives relating to taxation and rates. Other mechanisms that could be considered include increased incentives for R&D; exports and skills development. It should also be considered whether it would be beneficial to combine enterprise zones with particular business clusters. The level of incentives for each enterprise zone may also be a consideration. Increased incentives may be required to attract businesses to enterprise zones outside Belfast or further away from the two major cities than would be required in closer proximity. In consideration of enterprise zones care will need to be exercised and definitive conditions applied to avoid the net displacement of businesses in the surrounding areas as companies seek to gain lower costs by moving into enterprise zones thereby creating neighbouring zones of decreased economic activity. **A plan should be put in place at the earliest opportunity to evaluate the Coleraine Enterprise Zone in order**

**to consider if and how the Enterprise Zone concept can be rolled out to other areas across Northern Ireland in the future (Recommendation 6).**

**Sub-Regional Balance in Economic Development**

185. This strand considers how key infrastructure, government support and skills can be focused to ensure the appropriate balance between that promoted and offered to Belfast and the surrounding area and that available to areas further from Belfast. It also considers the balance of support for society and community strategies and initiatives and plans. Although these areas are considered elsewhere in the report it is considered important to consider them from the perspective of ensuring a sub-regional balance both in terms of real and virtual connectivity.
186. Dr Leslie Budd suggested the provision of incentives for spatial rebalancing. This is an area which could be considered in the development of an Economy & Employment Strategy. Invest NI has taken some steps to provide support to businesses across Northern Ireland however the Inquiry has shown that businesses, particularly SMEs, believe much more could be done. It may be worth reviewing how advice is provided sub-regionally and asking questions on whether the most appropriate structures are in place and whether the best use of available structures is being made. For example, is Invest NI appropriately linked to local council areas? What role does and could Enterprise NI play? Are the local enterprise agencies, as they are currently structured, appropriately aligned to the eleven new councils? Are the links between these stakeholders strong enough? If SMEs are confused and uncertain about where to go to obtain advice on a range of issues of importance to them, what more could be done locally and centrally to ensure the issue is addressed? Whatever the answer to these and other questions, the outcome should be that there is comprehensive advice and practical support readily available to businesses locally on key issues. **A review should be undertaken of the existing local provision of advice and practical support to businesses on issues such financial support, export advice, HR, finance, taxation, industrial relations, ICT and business regulation and plans put in place to improve and integrate provision where appropriate in line with business needs (Recommendation 7).**
187. Consideration was given to how sub-regional targets could be set for Invest NI. There may be scope for considering this in a wider context. For example, when considering future plans at local level for infrastructure development, skills and society & community factors, it may be appropriate for local councils to work individually with Invest NI to consider what is achievable in the context of local area plans. Councils are working with Invest NI to develop propositions for Invest NI to promote local areas, on the basis of these propositions, it may be appropriate at some stage in the future for each council to work with Invest NI to set targets for job creation. In this context councils in border areas should look at how the border region economy can contribute to future growth and job creation. **The Ministerial Sub-group on Economic Opportunities must work strategically with Invest NI and district councils to develop firm commitments to sub-regional economic growth and job creation. District councils should be encouraged to work with Invest NI to develop a proposition which Invest NI can use to promote the area. They should also be encouraged to take responsibility for deciding what is achievable and for setting targets for their council area following advice from Invest NI. (Recommendation 8).**
188. Given concerns expressed by NILGA that councils' ability to invest in SMEs will be considerably reduced due to the withdrawal of grants and the expectation of funding cuts, it is important that other sources of funding are sustained and increased including the encouragement and development of the Business Angel Network and venture capital funds across the region.

**Innovation**

189. Innovation and R&D are increasingly important in supporting business and attracting inward investment. This must be considered as a key priority in a future strategy for the economy.

No major issues were identified in evidence to the Committee however, given its importance, consideration should be given to how benchmarking good practice in innovation and R&D can support improvement in outcomes. This will be particularly important following devolution of corporation tax when Invest NI's focus on attracting high-performing R&D intensive businesses will increase.

190. An important development identified in the Stuttgart Region is the support provided by the regional government for the development of competence centres for business clusters of importance to that region's economy. The Committee welcomes the announcement of a Northern Ireland competence centre for the agri-food sector. **A plan should be put in place to evaluate the effectiveness of the Agri-Food Competence Centre and consideration should be given to how this model can be used as a pilot to assess the viability of future competence centres in other priority sectors identified through MATRIX and prioritised in the current Economic Strategy (Recommendation 9).**

#### **Accessibility for Business**

191. The Committee agrees with the NI Chamber of Commerce assessment that access to finance is critical to encouraging and supporting investment to drive the rebalancing of the economy. It is a positive sign that SMEs applying for finance are now having a much higher success rate however, over the past number of years' access to finance has been an issue of considerable importance for many businesses. DETI recognises that this remains a challenging issue and that there is limited scope for the Executive as banking is not a devolved matter. Implementation of the Economic Advisory Group recommendation of an independent access to finance panel may support improvement in the current provision. InterTradelreland has established its Funding for Growth scheme but this must be set in the context of an overall approach to improving access to finance. Consideration could also be given to how the banking sector can become involved in developing the Framework for the Economy. There was considerable evidence to the Committee to support the contention that many SMEs have difficulty in navigating, what InterTradelreland termed, 'the maze' of how to access finance. Implementation of Recommendation X (local provision of practical advice and support) should assist in improving provision in this area. **In developing an Economy & Employment Strategy consideration must be given to how a step change in access to finance can be achieved and to how the Northern Ireland banking sector can become involved in working as partners in economic development (Recommendation 10).**
192. Following the devolution of corporation tax both access to markets and access to suppliers will be important factors. Efficient supply chains are crucial to creating substantial value-chains of goods and services in all markets and sectors. There is a wide range of factors which can impact on these from transport infrastructure to practical government support to providing the appropriate skills for local businesses to become involved in the supply chain for future inward investors. It is therefore essential that both access to markets and access to suppliers are fully considered in the development of an Economy & Employment Strategy.

#### **Business Regulation**

193. A key concern in relation to business regulation related to the volume of regulations and the bureaucracy. This relates to the need to improve advice and support to businesses across Northern Ireland as stated earlier. Consideration should be given to how information and advice to business can be consolidated to provide a single point of contact on all aspects of advice including business regulation.
194. The time involved in regulatory activities and the costs involved was also an issue for SMEs in particular. Consideration should be given to how the cost to business can be addressed and regulation streamlined to support business. For example, it may help to undertake a review of how EU legislation is transposed to ensure that unnecessary burdens on business are eliminated and that future transposition has due regard to the costs to business associated with compliance. Therefore, **a review should be undertaken of how EU legislation**



**is transposed in Northern Ireland, drawing on, and learning from, the experience of other EU Member States to ensure that unnecessary burdens on business are eliminated and that future transposition of EU legislation has due regard to the costs to business associated with compliance (Recommendation 11).**

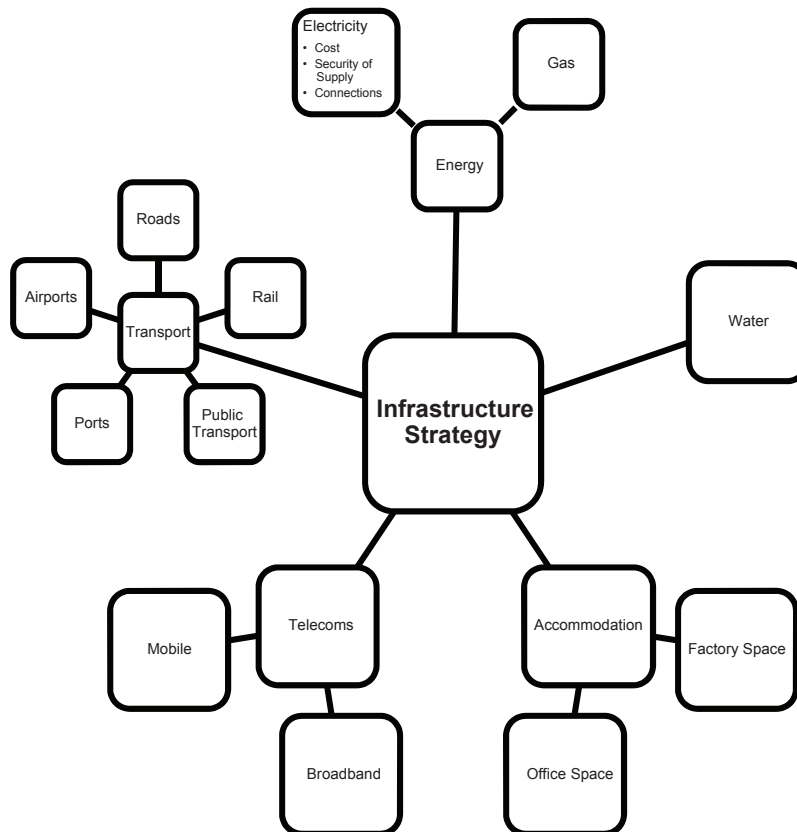
195. In relation to the spatial structure of the future economy, planning will be a key factor in determining the geographical distribution of inward investment. Consideration should be given to how the transition of responsibility for planning to local councils can be used as an opportunity to speed up and improve the planning system to support inward investment and the growth of indigenous businesses.

## Infrastructure Strategy

### Overview of Infrastructure Development

196. A strategy for infrastructure should focus on how appropriate infrastructure can be put in place to ensure that businesses in all locations across Northern Ireland can grow and create jobs on an equal basis in the long-term. The Infrastructure Strategy should focus on breaking down barriers resulting from deficiencies in transport, utilities, telecommunications and available workspace. A balance will have to be achieved between encouraging businesses to locate to areas where key infrastructure is in place and developing key infrastructure in areas where businesses are likely to seek to locate.
197. Assembly Research produced an interactive map which outlines the key economic drivers across Northern Ireland and the current infrastructure that is in place to service them.<sup>345</sup> These represent the factors that will have to be taken into consideration in developing an Infrastructure Strategy.

**Figure 3. Framework for an Infrastructure Strategy**



345 <http://niassembly.maps.arcgis.com/apps/webappviewer/index.html?id=d8c6a6a10dd04cfe9b204dc65cc95753> (Accessed 28th May 2015)

198. Figure 3 presents the strands which should be considered when developing an Infrastructure Strategy.

### **Energy**

199. The cost of electricity for large energy users continues to be a concern. High electricity costs will impact considerably on the types of business Invest NI will be able to attract following the devolution of corporation tax. The Executive must consider if and how it intends to address this issue in the long-term. If it is not going to be addressed then clarity must be provided for business so that they understand the long-term environment in which they have to operate. If it is going to be addressed, businesses must be provided with assurances on how and when this will happen.
200. In developing an Infrastructure Strategy, full consideration must be given to how connection to the grid can be made more straightforward for businesses across Northern Ireland. In this context it will be important to look at how the network can be developed along key business sites to reduce costs for business. Consideration should also be given to how mechanisms can be put in place to enable the Utility Regulator to move swiftly to meet demand when a business is seeking to locate or expand in a particular part of Northern Ireland. The next price control period, RP6, will provide an opportunity to improve the integration of electricity policy with economic development.
201. As part of the Economic Development Framework, there should be some anticipation of where business will seek to locate following devolution of corporation tax. The Department's response to the Committee provided little or no insight into how it anticipates devolved corporation tax will impact on electricity demand across Northern Ireland.<sup>346</sup> NIE raised the issue of the risk of 'stranded assets' where grid infrastructure is put in place and not used. These responses indicate that there is not a lot of long-term strategic thinking taking place in relation to future infrastructure requirements. There will always be a risk of stranded investment whether this is in the field of electricity or skills, roads or any other area of infrastructure. It is in the strategic planning of infrastructure in an integrated framework, such as that recommended by the Committee, that these risks can be mitigated and minimised and the maximum benefit achieved. In the development of the Infrastructure Strategy **DETI should revisit the recommendations in the Committee for Enterprise, Trade & Investment reviews on electricity pricing and grid connections to ensure that policies for grid infrastructure and electricity costs are structured to support current and future economic development (Recommendation 12).**
202. There was some concern expressed in relation to the future development of the gas network. It is important to send out clear messages to business in relation to what can be expected and when. In the short-term it is important that clarity is provided in relation to time scales and expected availability of gas to the west and in relation to any expectations there may be about the potential for gas to be extended to east Down and the north-west.

### **Water**

203. There were some issues expressed in relation to water infrastructure. Any existing or potential restriction on future economic development as a result of inadequacies in drainage infrastructure must be addressed as a priority. If, as was suggested to the Committee, NI Water is 30% less efficient than a comparable company in GB, inefficiencies must be quantified and addressed.

### **Transport**

204. The relationships and dependencies between the various policy areas in the Framework for Economic Development can be highlighted vividly in the relationship and dependency between transport infrastructure and the Economy & Employment Strategy. Some stakeholders have

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346 Appendix 5: DETI Response to Committee Query on the Impact of Devolved Corporation Tax on Electricity Demand

called for greater urbanisation and growth in the Belfast area, stating that it must become a much bigger city. Others have called for an increased focus on jobs outside of Belfast and in rural areas in the west and north-west. The mix of employment across Northern Ireland will have a major influence on the transport infrastructure required and the transport infrastructure we have in place will influence the ability of businesses to attract employment. Therefore, the development of the Economy & Employment Strategy and the Infrastructure Strategy will be highly interdependent in this area.

205. Development of transport infrastructure will have to consider connectivity of key transport routes, including to and from the two major cities in Northern Ireland to provide access to markets and suppliers for business and access to work for employees. It will also have to consider the accessibility of ports and airports by private and public transport as well as the cost of travel by air and sea. Consideration should also be given to the extent to which Belfast International Airport and Belfast City Airport should either compete with each other or complement each other's services.
206. There is increasing pressure to reduce the reliance on private transport and to increase accessibility to public transport. The Executive will have to consider the extent to which this can be achieved, given that Northern Ireland is largely a rural area. The appropriate balance will have to be considered so as to ensure appropriate incentives for public transport are in place along key transport routes whilst ensuring access to work does not become overly restrictive for employees. The outcome should be a balanced system that is appropriate to the existing and future spatial structure of the economy.

#### **Telecommunications**

207. The roll-out of broadband is progressing as is the roll-out of 4G across Northern Ireland. It is generally accepted that Northern Ireland is well served compared to other regions however many areas of poor connectivity remain. Whilst the Committee welcomes the Northern Ireland Broadband Improvement Project, which is due to be completed by December 2015, improvement in both broadband and mobile communications must remain a priority for the Executive to ensure adequate telecommunications infrastructure development across Northern Ireland. Consideration should be given to not only expanding broadband speed but expanding broadband access across the region.

#### **Office and Work Place Accommodation**

208. One of the key considerations for future economic development following the devolution of corporation tax will be the availability of accommodation for those businesses attracted to invest in Northern Ireland. Invest NI is taking steps to address the shortage of Grade A office accommodation and this is to be welcomed. However, consideration should be given to how appropriate office accommodation and workspace can be made available across Northern Ireland so that inward investors are not attracted to Belfast solely on the basis that appropriate accommodation is unavailable in other areas. The appropriateness of any accommodation will, of course, be linked to the availability of other key infrastructure such as transport infrastructure, electricity infrastructure and transport networks as well as links to skills and other support services.
209. Consideration should also be given to how more creative solutions can be developed to address the facilities in existing buildings to make them Grade A quality rather than merely incentivising the construction of new builds.

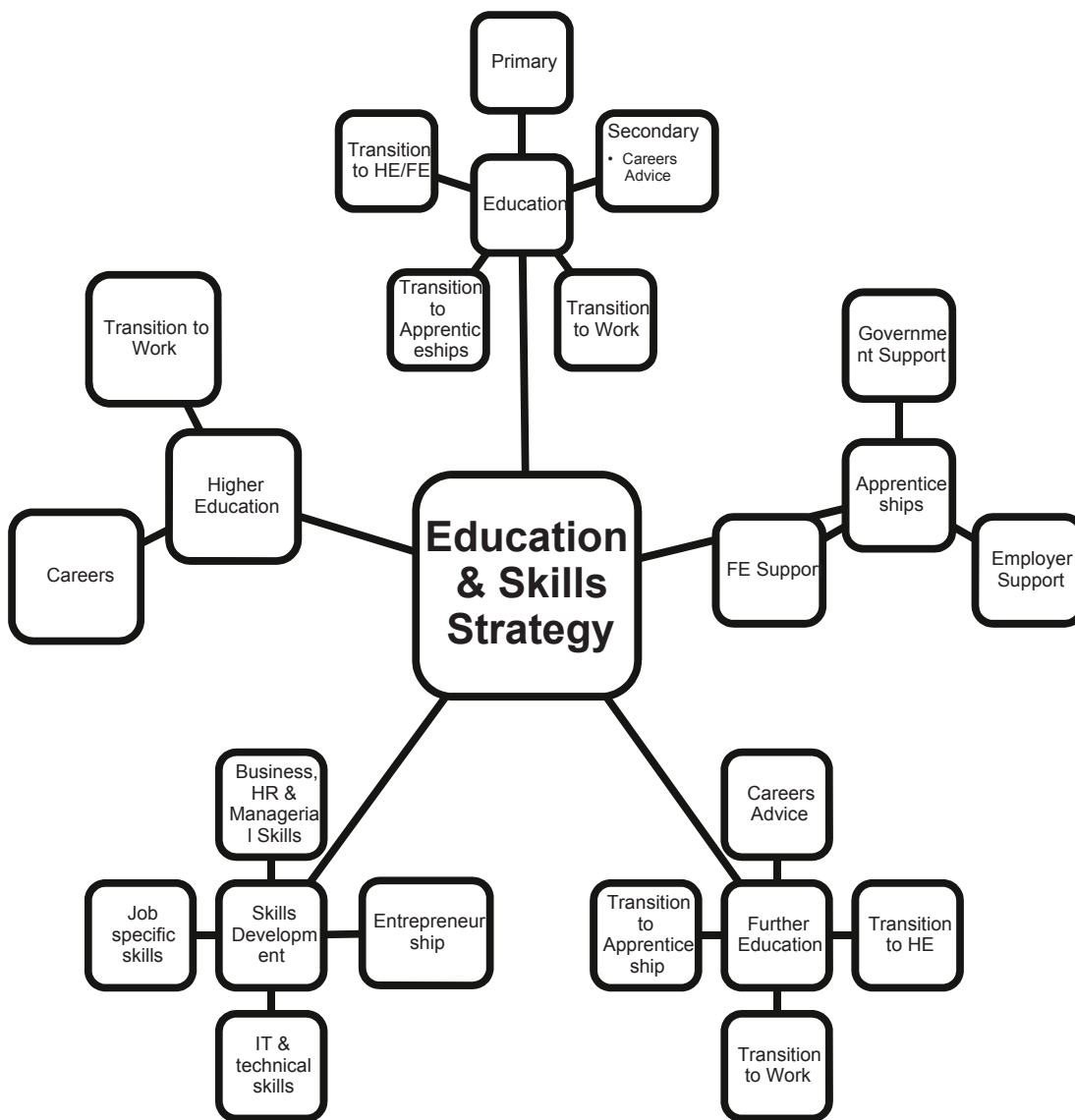
## **Education & Skills Strategy**

#### **Overview of Education & Skills**

210. Figure 4 presents the strands which should be considered when developing an Education & Skills Strategy.

211. The importance of growing the education and skills base in Northern Ireland to meet current and future business needs cannot be overestimated. A fully integrated Education & Skills Strategy is essential for future economic growth and job creation. Key strands for a strategy for education and skills include strategies for schools (education); further education; higher education; apprenticeships; and on the job training.

**Figure 4. Framework for an Education & Skills Strategy**



212. Whilst accepting that preparing children for the world of work is not the direct role of schools but only one aspect of the education of children, the Committee accepts that consideration of the long-term needs of the economy and society is important and should be an integral element of the education system. Suggestions have been made to the Committee on how schools can focus on the needs of business and the economy including the relationship between the curriculum and the skills requirements of current and future business. Suggestions have been made in relation to the importance of languages, business skills, technical skills and entrepreneurial skills. In the Stuttgart Region Committee members learned how education and business needs are integrated through the provision of long term workplace experiences for school pupils as part of their learning. A number of witnesses called for an increase in the number of business people on boards of governors with a view to promoting business and the private sector within the school and highlighting the opportunities available. The Committee welcomes DETI's view that there is considerably more potential to work with the Department of Education in influencing curriculum policy, careers education and how parents think in influencing the career choices that children and young people make.

The Committee also recognises that schools are currently under considerable pressure and that calls to increase focus on areas such as STEM subjects, languages, business skills and technical skills cannot be agreed without a change in overall focus. These are all issues which should be considered as part of the Strategy for Education & Skills.

213. An important element of preparing young people for life after school is preparing them for further or higher education, apprenticeships or work. If Northern Ireland is to grow its economy, it is going to need young people with the skills required by business. It is important that schools, businesses and young people work together to support young people into future careers where long-term employment opportunities exist.

#### **Higher & Further Education**

214. The Committee believes that the higher and further education sectors play a vital role in developing the skills business will need. STEM subjects are becoming increasingly important in the Northern Ireland economy and the role of universities and FE colleges is essential in providing the technical knowledge, skills and expertise that employers will need to support economic development.
215. As stated earlier, gaps exist between the skills being developed in universities and FE colleges and the available employment opportunities in Northern Ireland. It is essential that we not only improve our skills base in Northern Ireland but that we provide the skills needed and encourage young people to work towards qualifications in subjects where high-quality long-term employment opportunities exist. It is essential that, with budget reductions in universities and the FE sector, courses are not lost in subject areas where future high demand for skills is envisaged. Better and closer collaboration between Invest NI and universities and FE colleges may assist in focusing skills delivery on the needs of the economy. Consideration may also be given to providing incentives to students to study those subjects, such as STEM subjects, where skills shortages exist. For example, through a bursary system or through the university fee structure to provide a fee structure based on need. Consideration should be given to how the private sector can be encouraged to participate in any future initiatives in this area. Any future strategy for education and skills should look at how a systematic plan can be developed to target skills to investment in order to create employment. To this end, **a structured mechanism should be put in place for collaboration at a strategic level between the HE and FE sectors and Invest NI to ensure the best alignment between skills and current and future investment in both the short-term and long-term (Recommendation 13).**

#### **Apprenticeships**

216. The Committee agrees with the view that apprenticeships are a vital element of growing the economy and creating jobs. The Committee further agrees with ICTU's assessment that apprenticeships can be used to help tackle unemployment and deprivation. Manufacturing NI called for the profile of apprenticeships to be enhanced. Apprenticeships are undoubtedly a very worthwhile option for any individual considering a career path to a professional qualification. There were calls for a greater focus on employer-led apprenticeships and the Committee can see the value of allowing employers to develop apprenticeships in sectors where there is a demand for skills. In this regard the Committee very much welcomes the new employer-led Apprenticeship Strategy which puts employers in the lead and focuses on key areas identified in the Economic Strategy. Care must be taken to ensure that apprenticeships focus on skills that can lead to sustainable employment for individuals involved. Consideration should also be given to how the apprenticeship route can be promoted in schools and FE colleges as a professional career path for both men and women. It would also be beneficial to look at how the apprenticeship route can be opened up to increase its availability to men and women of all ages. **The future of apprenticeships should focus on skills that lead to sustainable employment through the ongoing development of the new employer-led Apprenticeship Strategy in sectors of high demand (Recommendation 14). The new employer-led Apprenticeship Strategy must be promoted and driven to raise awareness**

**of the value and benefits of this route to employment regardless of age or gender. Public procurement and the use of social clauses can contribute (Recommendation 15).**

**Skills Development**

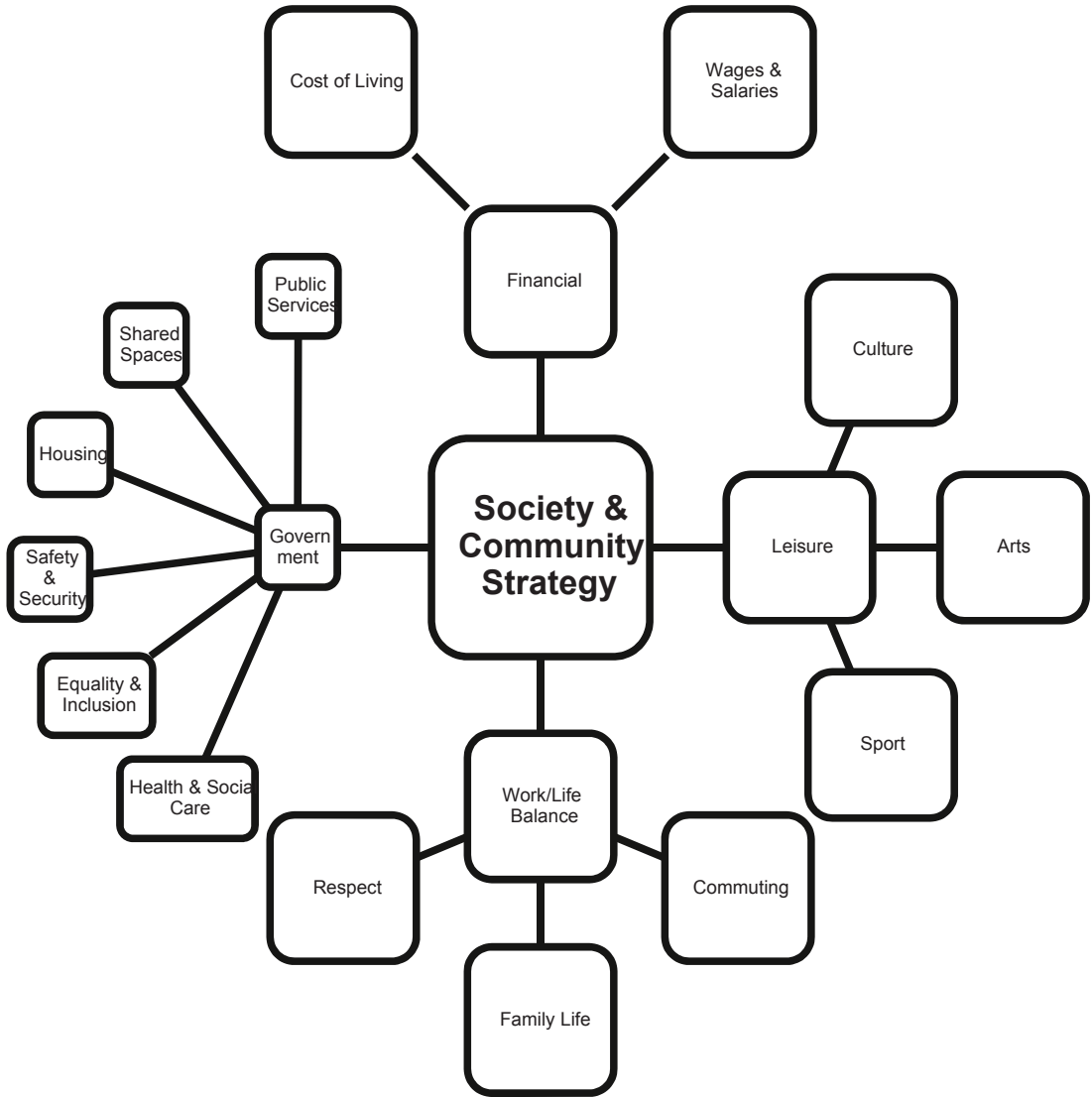
217. Whilst most of the skills developed by individuals will be through school, FE, HE, apprenticeships and work based training, many individuals and companies will seek to grow and enhance their skills base in a wider range of areas. There have been calls for support through the education system to improve business support skills such as human resources, finance and health & safety, language skills, ICT skills as well as management, leadership and entrepreneurial skills. Consideration should be given to how this can be achieved through all stages of education and training and in the workplace to support life-long learning. There is also a need to consider how up-skilling and re-skilling can be undertaken to help people to get into employment and to progress.
218. In relation to the wider skills base in Northern Ireland it will be important to distinguish between skills gaps which are structural in nature and skills shortages which are cyclical. Skills shortages can be addressed by increasing provision of appropriate education and training. Skills gaps are more difficult to address as this involves putting in place mechanisms to educate and train people in the appropriate skills.

## Society and Community Strategy

**Overview of Society & Community**

219. The Committee recognises that, whilst the economy is the number one priority for the Executive, this must be considered very much within the context of the society and communities in which we live. The needs of the economy must be balanced with the needs of people in order to provide a fair and just society. The focus of this Inquiry was on the development of the economy. Further work will need to be undertaken to further consider the requirements for a Society and Community Strategy. Some of the broad areas for consideration are included at Figure 5.

**Figure 5. Framework for a Society & Community Strategy**



**Final Thoughts**

220. There is no doubt that the achievement of the key recommendation in this report presents a very significant challenge to the Executive and others. It will require a high level of commitment and dedication from all key stakeholders inside and outside of government. The Committee believes that, with the right attitudes and with sufficient compromise on the part of all parties, a common vision can be developed and realised to create increased long-term employment and grow the economy for the benefit of everyone in Northern Ireland.







Northern Ireland  
Assembly

Appendix 1

# Minutes of Proceedings



## Minutes of Proceedings (extracts)

20 January 2015

3 February 2015

10 February 2015

17 February 2015

24 February 2015

3 March 2015

10 March 2015

24 March 2015

14 April 2015

21 April 2015

28 April 2015

12 May 2015

26 May 2015

9 June 2015

16 June 2015

23 June 2015

## 20 January 2015

### Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** Mr Phil Flanagan (Deputy Chairperson)  
Mr Danny Kinahan

#### **6. Committee Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members considered a proposal for the Committee Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment.

*Agreed:* Members were content with the draft Inquiry proposal.

Members considered a draft request for evidence.

*Agreed:* To issue a request for evidence to the stakeholders identified in the proposal.

Members considered a draft public notice.

*Agreed:* To issue the public notice in the main newspapers and the Committee website.

Members considered a draft Inquiry timeline.

*Agreed:* Members were content with the draft Inquiry timeline.

Members considered correspondence from the Institution of Civil Engineers in Northern Ireland.

*Agreed:* To include the correspondence in evidence for the Inquiry

*Agreed:* Members agreed for the Chair to arrange a meeting with Alastair Hamilton, CEO of Invest NI to discuss the Inquiry.

*Agreed:* For the Committee Office to liaise with Assembly Research to issue a survey through Survey Monkey.

#### **1. Oral briefing from Assembly Research: Foreign Direct Investment**

**10:32am** The officials joined the meeting.

Members received a briefing from Mr Aidan Stennett, Research Officer, RaISe and Mr Daniel Donnelly, Bursary Student, RaISe.

Key Issues discussed included: Factors businesses consider when planning Foreign Direct Investment, difference of factors in developed and developing economies, economic clusters,

knowledge transfer, quality of life and how European Regions manage their Foreign Direct Investment propositions.

**10:52am** The Meeting was suspended due to a plenary vote and statement by the Minister for Enterprise, Trade & Investment

**11:52 am** The Meeting resumed with the following members present:

Mr Patsy McGlone (Chairperson), Mr Steven Agnew, Mr Gordon Dunne, Mr Paul Frew, Mr Fearghal McKinney and Mr Máirtín Ó Muilleoir.

*Agreed:* Members agreed to include the research papers in evidence for the Growth and Jobs Inquiry.

**11:55am** Mr Daniel Donnelly left the meeting.

**11:55am** Paul Given joined the meeting.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

27 January 2015

**[EXTRACT]**

## 3 February 2015

### Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** None

#### 7. **Matters Arising**

Members discussed a response from the NIABT regarding the Inquiry into Economic Growth and Job Creation.

*Agreed:* Members agreed to hold a stakeholder event along with the NIABT as part of the Inquiry on Tuesday 14th April in the Long Gallery.

**Mr Patsy McGlone**  
Chairperson  
Committee for Enterprise, Trade and Investment

10 February 2015

**[EXTRACT]**

# 10 February 2015

## Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
 Ms Sohui Yim (Assistant Assembly Clerk)  
 Mr Nathan McVeigh (Clerical Supervisor)  
 Mr Christopher Jeffrey (Clerical Officer)

**Apologies:** None

### 2. **Oral Briefing from Committee Specialist Advisor: Economic Challenges and Opportunities in a Different Tax Environment**

**11.20am** The Committee's Specialist Advisor joined the meeting.

**11.20am** Mr Gordon Dunne left the meeting.

**11.26am** Ms Megan Fearon joined the meeting.

**11.35am** Mr Fearghal McKinney left the meeting.

Members received an oral briefing from Dr Leslie Budd.

Key Issues discussed included: effects of a reduction in corporation tax; the impact on economic development; and the challenges to the local economy.

*Agreed:* To receive more up to date information on the figures from the IMF referred to in an Assembly Research Paper.

*Agreed:* To receive supplementary information on the effects of changes to the rate of corporation tax on the USA economy.

*Agreed:* To receive additional information on the possible impact on the NI economy of a UK withdrawal from the EU.

**12.01pm** The Committee's Specialist Advisor left the meeting.

### 8. **Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**12.08pm** Mr Phil Flanagan left the meeting.

Members discussed the Committee's Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment.

*Agreed:* To request written evidence from the Ulster Farmers' Union and the NI Agricultural Producers' Association and to inform the Agriculture Committee that this has been done.

*Agreed:* In principle to a Committee visit to Stuttgart.

*Agreed:* That the Committee Office cost the visit and draw up a proposal and business case for the visit.

Members discussed the Chair's meeting with the CEO of Invest NI to discuss the best way for the Committee to obtain information on determinants of foreign direct investment (FDI) in regions where Invest NI has a presence.

*Agreed:* To commission Assembly Research into the provision and perception of key FDI determinants (as identified by the Committee's jobs and growth inquiry survey) in target FDI markets.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

17 February 2015

**[EXTRACT]**



# 17 February 2015

## Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
 Ms Angela McParland (Assistant Assembly Clerk)  
 Mr Nathan McVeigh (Clerical Supervisor)  
 Mr Christopher Jeffrey (Clerical Officer)  
 Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** None

### 1. **Oral briefing from Manufacturing NI: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**10:17am** The representatives joined the meeting.

Members received a briefing from Stephen Kelly, Chief Executive, Manufacturing NI, Con O'Neill, Chairman, Manufacturing NI, Niall Irwin, Director, Irwin's Bakery and Mark Cuskeran, Managing Director, SDC Trailers.

Key issues discussed included: Manufacturing NI's manifesto, key priorities for Manufacturing NI members, formation of an executive strategy with education bodies on manufacturing, energy pricing, water charges, industrial rates secured in legislation, broadband provision, roads infrastructure, transportation costs, sectorial specialisms, and identifying skills gaps.

**10:19am** Megan Fearon and Steven Agnew joined the meeting.

**10:25am** Danny Kinahan joined the meeting.

**10:27am** Fearghal McKinney left the meeting.

**11:16am** Megan Fearon left the meeting.

**11:30am** Danny Kinahan left the meeting.

**11:59am** Máirtín Ó Muilleoir left the meeting.

**11:59am** The representatives left the meeting.

#### **Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

24 February 2015

**[EXTRACT]**

## 24 February 2015

### Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Gordon Dunne  
Mr Paul Frew  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** Mr Steven Agnew

#### **1. Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members considered a response from the Committee for the Environment and an email from a member of the public in response to the Committee's Inquiry. Members also considered correspondence from the Department for Regional Development to the Committee for Regional Development regarding the NI Strategic Drainage Infrastructure Plan.

*Agreed:* to include the above as evidence for the Inquiry.

*Agreed:* to ask the Road Haulier's Association to provide a written submission to the Inquiry.

*Agreed:* to ask NIE for a response to the Committee's previous request for information regarding substations and for a written briefing on the shortcomings of the grid, specifically in relation to where it may prove an inhibiting factor to business growth to be followed by an oral briefing to the Committee.

*Agreed:* to consider the answer to a written question by Paul Frew on NI Water treatment works.

**12:10pm** Máirtín Ó Muilleoir left the meeting.

#### **Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

3 March 2015

**[EXTRACT]**

## 3 March 2015

### Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

#### **1. Chairperson's Business**

The Chairperson reminded members that a stakeholder event has been organised for the Inquiry for 14th April 2015.

**10:10am** Megan Fearon joined the meeting.

*Agreed:* to invite the Belfast Telegraph top 100 companies to attend the event.

#### **Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

10 March 2015

**[EXTRACT]**

# 10 March 2015

## Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** Mr Danny Kinahan

### 3. **Chairperson's Business**

Members noted a draft invitation to the stakeholder event for the Committee's Inquiry, to be held on Tuesday 14 April in the Long Gallery.

*Agreed:* to issue the invitation through the Northern Ireland Assembly and Business Trust.

### 5. **Written Submissions: Committee Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members noted written submissions to the Inquiry which were received from: the Committee for Employment and Learning, the Committee for Agriculture and Rural Development, the Committee for the Environment, the Department of Agriculture and Rural Development, the Department for Employment and Learning, the Department for Regional Development, the Department of Education, GrowNI, the Institute of Directors Northern Ireland, the Campaign for the Economic Regeneration of the Former Visteon Site and Mid Ulster District Council. Members noted a presentation by PriceWaterhouseCoopers to the Quarry Products Association on Northern Ireland corporation tax.

*Agreed:* to include the submissions in the evidence for the Inquiry.

### 4. **Oral Briefing from the Institute of Directors Northern Ireland: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**11:00am** The representatives joined the meeting.

Members received a briefing from Mrs Linda Brown, Director, Institute of Directors, Mr Mervyn McCall, MNV Limited and past Chairman of IoD Northern Ireland and Mr Bill Beers, Beers Engineering Consultancy and Member of IoD Northern Ireland.

Key issues discussed included: Welfare Reform, the IoD jobs plan, energy infrastructure, jobs in rural areas, skills deficit, political instability, transport infrastructure, communications infrastructure and public procurement.

**11:05am** Megan Fearon joined the meeting.

**11:20am** Paul Givan joined the meeting.

**11:40am** Paul Frew left the meeting.

**11:56am** Paul Givan left the meeting.

**11:59am** The representatives left the meeting.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

24 March 2015

**[EXTRACT]**

## 24 March 2015

### Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)

**Apologies:** Mr Phil Flanagan (Deputy Chairperson)  
Ms Megan Fearon

#### 5. **Briefing from Assembly Research: Business Survey – Headline Results**

**11:10am** The Researcher joined the meeting.

Members received a briefing from Mr Aidan Stennett, Assembly Research Officer.

Key issues discussed included: the main points raised by those who took part in the Committee survey.

*Agreed:* to include the research paper in the evidence for the Inquiry.

*Agreed:* to forward the research paper to the Department for information.

**11.15am** William Humphrey left the meeting.

**11.20am** The Researcher left the meeting.

#### 6. **Assembly Research Paper: IDA Ireland – Regional Targets and Policy Measures**

Members considered an Assembly Research paper on IDA Ireland – Regional Targets and Policy Measures.

**11.21am** Paul Frew left the meeting.

*Agreed:* to include the research paper in the evidence for the Inquiry.

*Agreed:* to commission research to ascertain the possible reasons for targets not having been met by IDA Ireland on its stated regional objectives.

*Agreed:* to forward the research paper to the Department for information.

#### 8. **Written Submissions: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members considered written submissions to the Inquiry from Campaign for the Economic Regeneration of the Former Visteon Site, Confederation of British Industry, Daily UK, Enterprise NI, Federation of Small Businesses, Fermanagh and Omagh District Council, Lisburn and Castlereagh City Council, Mid Ulster District Council, Newry, Mourne and Down

District Council, Road Haulage Association Ltd, Ulster University, Belfast International Airport Ltd and a supplementary response from the Institute of Directors Northern Ireland.

*Agreed:* to include the submissions in the evidence for the Inquiry.

**13. Written Briefing from DETI: Northern Ireland Broadband Improvement Project**

Members considered a paper providing an update on the Northern Ireland Broadband Improvement Project.

*Agreed:* to include the papers in evidence for the Inquiry.

**14. Written Briefing from DETI: Access to Finance**

Members considered a Departmental briefing paper on Access to Finance.

**Agreed:** to include the briefing paper in evidence for the Inquiry.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

14 April 2015

**[EXTRACT]**

# 14 April 2015

## Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** None

### 7. **Oral Briefing from the Northern Ireland Chamber of Commerce: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**10:24am** The Officials joined the meeting.

Members received a briefing from Mr Kevin Kingston, President, Mr Stephen McCully, Vice-President, Ms Anne McGregor, Chief Executive, of the Northern Ireland Chamber of Commerce and Ms Maureen O'Reilly, Independent Economist.

Key issues discussed included: corporation tax, jobs, broadband, grade A office and industrial space, infrastructure, access to finance, energy cost and supply, export base, KPIs, European Union membership, R&D investment, quarterly economic survey, enterprise zones, joined up government, promotion of agreed key facts and figures overseas.

**10.29am** Fearghal McKinney joined the meeting.

**11.08am** Paul Givan joined the meeting.

**11.22am** Danny Kinahan joined the meeting.

**11.26am** Máirtín Ó Muilleoir joined the meeting.

**11.42pm** Steven Agnew joined the meeting.

**11.49am** The Officials left the meeting.

### 8. **Oral Briefing from Northern Ireland Electricity: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**11.50am** The Officials joined the meeting.

Members received a briefing from Mr Nicolas Tarrant, Managing Director, Mr Peter Ewing Deputy Managing Director and Director Regulation, Mr Michael Atkinson, Head of Generation Connections and Mr Ian Baillie, Distribution Planning Manager, Northern Ireland Electricity.

Key issues discussed included: grid connection, managed connections for small scale generator connections, stakeholder communication, pressure points on the grid, rural



network, forecast model, charging guideline, clusters, heat map, micro-grids, generation/load connections, Competition Commission Review, upfront payments by customers.

**11.51am** Fearghal McKinney left the meeting.

**11.55am** Megan Fearon left the meeting.

**11.55am** Máirtín Ó Muilleoir left the meeting.

**12noon** Danny Kinahan left the meeting.

**12.08pm** The meeting was suspended due to a vote in Plenary

**12.24pm** The meeting recommenced with the following members present:

Mr Patsy McGlone, Chairperson

Mr Phil Flanagan, Deputy Chairperson

Mr Steven Agnew

Mr Gordon Dunne

Mr Paul Frew

Mr Paul Givan

Mr William Humphrey

**12.35pm** Patsy McGlone left the meeting.

**12.35pm** Phil Flanagan took the Chair.

**12.44pm** Steven Agnew left the meeting.

**13.20am** The Officials left the meeting.

## **8. Written Submissions: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members considered written submissions to the Inquiry from Belfast City Council and Mid and East Antrim Council.

*Agreed:* to include the two submissions in the evidence for the Inquiry.

*Agreed:* to publish all of the Inquiry submissions received by the Committee onto the Committee webpages.

### **Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

21 April 2015

**[EXTRACT]**

# 21 April 2015

## Room 29, Parliament Buildings, 10.00am

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** Mr William Humphrey  
Mr Danny Kinahan

### **1. Oral Briefing from the Federation of Small Businesses (FSB) Northern Ireland : Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**10:14am** The representatives joined the meeting.

Members received a briefing from Mr Roger Pollen, Head of External Affairs, Mr Wilfred Mitchell, Policy Chairman and Ms Carolyn Brown, Policy Manager, FSB Northern Ireland.

Key issues discussed included: the importance of small businesses to the Northern Ireland economy, corporation tax, access to finance, infrastructure, planning, procurement, rates, small business rates relief, business support, energy regulation policy development, jobs, EU funding, EU regulation, employment & law review/Enterprise & Regulatory Reform Bill, the establishment of a network of small business advice centres, cuts in skills and education budgets.

**10:24am** Steven Agnew joined the meeting.

**10:41am** Megan Fearon joined the meeting.

**11:02am** Megan Fearon left the meeting.

**11:27am** Patsy McGlone left the meeting.

**11:27am** Phil Flanagan took the Chair.

**11:31am** Patsy McGlone resumed the Chair.

**11:45 am** The Representatives left the meeting.

**11:45 am** Fearghal McKinney left the meeting.

### **2. Oral Briefing from DETI, InterTradeIreland and Invest NI: Inquiry into Economic Growth and job Creation in a Reduced Tax Environment**

**11:46am** The representatives joined the meeting.

Members received a briefing from Mr Alastair Hamilton, Chief Executive, Invest NI, Mr William McCulla, Director, Corporate Finance and Property Solutions, Invest NI, Mr Thomas Hunter

McGowan, Chief Executive, InterTradelreland and Mr Chris Stewart, Deputy Secretary, Policy Group, DETI.

Key issues discussed included: economic strategy, corporation tax, Grade A Office space, EU membership, European funding programme, businesses access to EU, I-SEM, cost of electricity, policy framework for renewable energy, opportunities in services sector, challenges in energy sector, health and life sciences sector, sub-regional targets, regional imbalance in jobs, InterTradelreland Funding for Growth scheme, nonbank funding.

**11:53am** Steven Agnew left the meeting.

**11:56 am** Paul Givan joined the meeting.

**12:01pm** Máirtín Ó Muilleoir joined the meeting.

**1:10pm** Máirtín Ó Muilleoir left the meeting.

**12:44 pm** Phil Flanagan left the meeting.

**1.20pm** The representatives left the meeting.

As the meeting became inquorate to take decisions under Standing Order 49 (5) at 1:20pm, the Chairperson suspended the meeting under Standing Order 46 (6) until Tuesday 28 April 2015 with the remaining items of business to be discussed at that meeting.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

28 April 2015

**[EXTRACT]**

## 28 April 2015

### Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** Ms Megan Fearon  
Mr Danny Kinahan

#### 9. **Oral Briefing from DETI and the Utility Regulator: Energy Issues Update and Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members received a briefing from Ms Tanya Hedley, Director of Compliance and Network Operations, Northern Ireland Authority for Utility Regulation, Ms Jo Aston, Director of Wholesale Markets, Northern Ireland Authority for Utility Regulation and Mr John Mills, Head of Energy Division, DETI.

Key issues discussed included: security of supply, the additional 250MW of capacity, Moyle Interconnector, North-South Interconnector, value for consumers, renewable targets, infrastructure, NIE funding, connections issues, total costs to consumers of repairs, Utility Regulator-SONI-DETI Cooperation, I-SEM, state aid compliance, earnings of Mutual Energy Senior Executives and Solar PV in Domestic Housing.

**11:53am Máirtín Ó Muilleoir joined the meeting.**

**11:55am William Humphrey left the meeting.**

*Agreed:* to send a copy of the Hansard of the briefing to SONI for comment.

*Agreed:* to ask the Utility Regulator for: details of the review that the Utility Regulator carried out into Mutual Energy; to clarify the period of notice needed to be given by AES Corporation to close down Ballylumford power station; and to forward to the Committee their written contribution to the research carried out by the Department of Enterprise, Trade and Investment for its paper on the optimum cost-benefit targets for renewable energy in Northern Ireland.

*Agreed:* the Utility Regulator to forward to the Committee a written briefing on its engagement with key stakeholders in Northern Ireland on the issue of a reduced tax environment.

*Agreed:* to forward to the Utility Regulator further questions that the Committee was unable to ask at the briefing due to time constraints.

*Agreed:* to ask the Department for a written briefing on the expected impact on electricity consumption of devolved corporation tax powers including scenarios considering how demand would be met.

**12:14pm** The representatives left the meeting.

**12:14pm** The meeting was suspended due to a Plenary Vote

**12:30pm** The meeting resumed with the following members present:-

Mr Patsy McGlone, Chairperson

Mr Phil Flanagan, Deputy Chairperson

Mr Steven Agnew

Mr Gordon Dunne

Mr Fearghal McKinney

**10. Oral Briefing from Grow NI: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members received a briefing from Mr Eamonn Donaghy, Spokesperson for Grow NI and Head of Tax at KPMG and Mr Carl Whyte, Member of Grow NI and Partner with MW Advocate.

Key issues discussed included: Corporation Tax (Northern Ireland) Act 2015, corporation tax and employment, short-term key proposals, FDI, skills, connectivity of schools and businesses, EU membership.

**12:35pm** Paul Frew joined the meeting.

**12:36pm** Máirtín Ó Muilleoir joined the meeting.

**12:45pm** Steven Agnew left the meeting.

**12:54pm** Paul Givan left the meeting.

**12:58pm** Paul Frew left the meeting.

**1:20pm** The representatives left the meeting.

**7. Matters Arising**

Members considered a Quarterly Economic Survey from the Northern Ireland Chamber of Commerce and Industry.

*Agreed:* to include the survey in the evidence for the Committee's Inquiry into economic growth and job creation in a reduced tax environment.

**10. Written Briefing from Assembly Research: ETI Committee – Stuttgart Visit**

Members noted a research paper from Assembly Research providing a summary and learning points on the Committee's recent visit to Stuttgart.

*Agreed:* to include the research paper in the evidence for the Committee's Inquiry into economic growth and job Creation in a reduced tax environment.

*Agreed:* to share a copy of the research paper with the Committee for Employment and Learning, the Committee for Culture, Arts and Leisure, the Committee for the Office of the First and deputy First Minister, the Committee for Regional Development and the Office of the Northern Ireland Executive in Brussels.

**13. Written Briefing from Irish Congress of Trade Unions: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Members discussed a response from the Irish Congress of Trade Unions and the Nevin Economic Research Institute declining an invitation to give oral evidence to the Committee.

Agreed: to re-issue the invitation and include 'living wage' as a discussion point in the briefing.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

12 May 2015

**[EXTRACT]**

# 12 May 2015

## Room 29, Parliament Buildings

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**Apologies:** Mr Phil Flanagan (Deputy Chairperson)

#### 4. **Oral Briefing from the Confederation of British Industry: Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

**10:15am** The Officials joined the meeting.

Members received a briefing from Mr Nigel Smyth, Director, CBI, Mr David Gavaghan, Vice-Chair, CBI and Mr David Fry, Senior Policy Advisor, CBI.

**10:19am** Danny Kinahan joined the meeting.

**10:21am** Steven Agnew joined the meeting.

**11:19am** William Humphrey left the meeting.

**11:31am** Danny Kinahan left the meeting.

Key issues discussed included: strategic and policy challenges to the Northern Ireland economy, smart targets, corporation tax as a transformative tool, job creation, employment regulation, procurement, education, skills, infrastructure, Shared Future, Programme for Government, employability of young people, business and education links, population growth and urbanisation.

**11:42am** The Representatives left the meeting.

**11:42am** Paul Frew left the meeting.

*Agreed:* members agreed to ask for a written submission from the Department for Regional Development on how Transport NI's strategy is geared towards the economy.

*Agreed:* members agreed to ask for a written submission from the Department of the Environment on how area planning can contribute towards economic development and how planning policy has improved to support business development.

**5. Oral Briefing from DETI and Invest NI : Update on ERDF Investment for Growth and Jobs Programme.**

**11:44am** The Representatives joined the meeting.

**11:46am** Paul Frew re-joined the meeting.

Members received a briefing from Mr Paul Brush, Head of European Support, DETI, Mr Charles Hamilton, Head of EU Programmes, Invest NI, Ms Carol Keery, Director of Business Performance, EU and Risk Management, Invest NI and Mr William McCulla, Director of Corporate Finance and Property Solutions, Invest NI.

Key issues discussed included: plans for the launch, implementation and development of the Programme, proposed visit by the EU Commissioner, a proposed information session, provision of capital for SMEs, a local government strand for small and micro businesses, design service for businesses and the grid.

*Agreed:* to include the Departmental paper in evidence for the Committee's Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment.

**11:46 am** Fearghal McKinney left the meeting.

**12:06 pm** Megan Fearon joined the meeting.

**12:22pm** The representatives left the meeting.

**8. Written Briefing from DETI: Programme for Government 2011-2015 – Department Delivery Plans Progress at 31 March 2015**

Members noted a Departmental paper on Programme for Government Delivery Plans Progress at 31 March 2015.

*Agreed:* to include the paper in evidence for the Committee's Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

19 May 2015

**[EXTRACT]**



## 26 May 2015

### Room 29, Parliament Buildings, 10.00am

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Gordon Dunne  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)  
Mr Peadar Ó Lamhna (Bursary Student)

**pologies:** Mr Steven Agnew

#### 4. **Oral Briefing from the Irish Congress of Trade Unions (ICTU): Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment**

**10:37am** The Representative joined the meeting.

Members received a briefing from Mr Peter Bunting, Assistant General Secretary, Irish Congress of Trade Unions.

Key issues discussed included: EU membership referendum, corporation tax, jobs, a lack of criteria or performance based approach to companies in regards to corporation tax, the all-island economy, the Scottish model of corporation tax, collaboration between different industries, business and third level education, innovation in the labour market and the establishment of a National Social and Economic Council.

**10:40am** Fearghal McKinney joined the meeting.

**10:59am** Paul Givan joined the meeting.

**11:07am** Danny Kinahan joined the meeting.

**11:18am** Paul Givan left the meeting.

**11:28am** Paul Frew joined the meeting.

**11:30am** Máirtín Ó Muilleoir left the meeting.

**11:53am** William Humphrey joined the meeting.

**11:59am** The representative left the meeting.

**Agreed:** the Representative to forward to the Committee his findings on the transposing of EU directives.

**6. Matters Arising**

Members noted a written response from the Department regarding the Committee's request for information in relation to devolved corporation tax powers following the briefing on energy issues on 28 April 2015.

*Agreed:* to add the response as evidence to the Inquiry.

Members noted supplementary information from Grow NI arising out of the oral briefing to the Committee on 28 April 2015.

*Agreed:* to add as evidence to the Inquiry

Members noted correspondence from NILGA regarding corporation tax.

*Agreed:* to add as evidence to the Inquiry.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

2 June 2015

**[EXTRACT]**

# 9 June 2015

## Room 29, Parliament Buildings, 10.00am

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Steven Agnew  
Ms Megan Fearon  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Fearghal McKinney

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)

**Apologies:** Mr Phil Flanagan (Deputy Chairperson)  
Mr Gordon Dunne

#### 4. **Oral Briefing from NISRA: Economic Data**

**10:08am** The Officials joined the meeting.

Members received a briefing from Dr David Marshall, Director, NISRA, and Dr James Gillan, Senior Principal Statistician, NISRA, in relation to economic data available on Northern Ireland.

**10.41am** Paul Frew joined the meeting.

**10.42am** Megan Fearon joined the meeting.

Key issues discussed included: an overview of the role of NISRA, the statutory obligations of NISRA, regulation, the quality of economic statistics and sub-regional economic data.

*Agreed:* that NISRA provide the Committee with the indicators in relation to the green economy.

**11:49pm** The meeting went into closed session.

#### 13. **Committee Report: Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment**

Members considered the draft 'Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax'.

**12.11pm** The Chairperson adjourned the meeting.

##### **Mr Patsy McGlone**

Chairperson  
Committee for Enterprise, Trade and Investment

16 June 2015

**[EXTRACT]**

# 16 June 2015

## Room 29, Parliament Buildings, 10.00am

**Present:** Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
Ms Angela McParland (Assistant Assembly Clerk)  
Mr Nathan McVeigh (Clerical Supervisor)  
Mr Christopher Jeffrey (Clerical Officer)

**Apologies:** Mr Danny Kinahan

**10:14am** The meeting began.

### **14. Committee Report: Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment**

Members considered the draft 'Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax'.

#### **Mr Patsy McGlone**

Chairperson  
Committee for Enterprise, Trade and Investment

23 June 2015

**[EXTRACT]**

## 23 June 2015

### Room 29, Parliament Buildings, 10.00am

**Present:** Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

**In Attendance:** Mr Jim McManus (Assembly Clerk)  
 Ms Angela McParland (Assistant Assembly Clerk)  
 Mr Nathan McVeigh (Clerical Supervisor)  
 Mr Christopher Jeffrey (Clerical Officer)

**Apologies:** Mr Danny Kinahan

#### 12. **Committee Report: Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment – informal consideration**

Members considered the draft 'Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax'.

**11.18am** Máirtín Ó Muilleoir joined the meeting.

**11.20am** Patsy McGlone joined the meeting.

**11.20am** Patsy McGlone took the Chair.

**11.35am** Paul Givan joined the meeting.

**11.36am** The meeting was suspended.

**1.02pm** The meeting recommenced in closed session with the following members in attendance:

- Mr Patsy McGlone (Chairperson)
- Mr Phil Flanagan (Deputy Chairperson)
- Mr Gordon Dunne
- Ms Megan Fearon
- Mr Fearghal McKinney
- Mr Máirtín Ó Muilleoir

**1.04pm** William Humphrey joined the meeting

*Agreed:* to make amendments to the report.

**1.16pm** Megan Fearon left the meeting

**13. Committee Report: Inquiry into Growing the Economy and Creating Jobs in a Reduced Tax Environment – formal consideration**

**1.56pm** William Humphrey left the meeting

Members considered the amended draft 'Report on the Committee's Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax'.

*Agreed:* the Committee is content that the list of Membership and Powers stands part of the Report?

*Agreed:* the Committee is content that the Table of Contents stands part of the Report?

*Agreed:* the Committee is content that the list of Abbreviations stands part of the Report?

*Agreed:* the Committee is content that the Executive Summary stands part of the Report?

*Agreed:* the Committee is content that the Summary of Recommendations stands part of the Report?

*Agreed:* the Committee is content that the Introduction stands part of the Report?

*Agreed:* the Committee is content that the Key Issues and Findings stands part of the Report?

*Agreed:* the Committee is content that the Conclusions and Recommendations stands part of the Report?

*Agreed:* the Committee is content that the extract of the Minutes of Proceedings at Appendix 1 stands part of the Report?

*Agreed:* the Committee is content that the Minutes of Evidence (Hansards) at Appendix 2 stands part of the Report?

*Agreed:* the Committee is content that the Written Submissions at Appendix 3 stands part of the Report?

*Agreed:* the Committee is content that the Research Papers at Appendix 4 stands part of the Report?

*Agreed:* the Committee is content that the Other Papers at Appendix 5 stands part of the Report?

*Agreed:* the Committee is content that the List of Witnesses at Appendix 6 stands part of the Report?

*Agreed:* the Committee is content for the Chairperson to approve an extract from today's minutes which reflect the read through of the report.

*Agreed:* the Committee is content with the draft motion.

*Agreed:* the Committee is content that the debate on the report is scheduled for 7 September 2015 or the earliest Monday available following that date.

**2.01pm** The Chairperson adjourned the meeting.

**Mr Patsy McGlone**

Chairperson

Committee for Enterprise, Trade and Investment

30 June 2015

**[EXTRACT]**



Northern Ireland  
Assembly

Appendix 2

# Minutes of Evidence





## Minutes of Evidence

- 10 February 2015 – Dr Leslie Budd
- 17 February 2015 – Manufacturing NI
- 10 March 2015 – Institute of Directors
- 14 April 2015 – Northern Ireland Electricity
- 14 April 2015 – Northern Ireland Chamber of Commerce and Industry
- 21 April 2015 – Federation of Small Businesses
- 21 April 2015 – Invest NI, IntertradeIreland and DETI
- 28 April 2015 – Grow NI
- 28 April 2015 – DETI and Utility Regulator
- 12 May 2015 – Confederation of British Industry
- 26 May 2015 – Irish Congress of Trade Unions
- 9 June 2015 – NISRA



## 10 February 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr Danny Kinahan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

1. **The Chairperson (Mr McGlone):** Leslie, it is good to see you. Thanks very much for coming over to us. I invite you to make an opening statement based on your paper.
2. **Dr Leslie Budd:** I apologise for the tardiness of the paper. A number of things came up, and it took me longer than I thought. That is a problem for all economists, I suspect.
3. In my paper, I tried to take a broader-based approach to corporation tax. I mentioned to the Clerk that David Heald, a public finance specialist from the University of Aberdeen, is giving evidence to the Finance Committee tomorrow. He was one of the main speakers at a workshop that I organised two weeks ago in Edinburgh. I have passed over copies of his presentation, as well as some of his submissions to the Smith commission that deal with financial complexities. I am not a public finance specialist, although I know something about it.
4. I thought that the Research and Information Service's review paper was very good and provided a fair summary. I take issue not with the paper but with some of the stuff from the IMF, which, frankly, is wrong and quite dated. A lot of the other stuff was a very fair summary of the issues, which are much broader and more complex.
5. **The Chairperson (Mr McGlone):** I do not anticipate that you would do so today,

but if there is stuff from the IMF that is wrong or dated, it would be helpful if you drew it to our attention.

6. **Dr Budd:** I will put it in an email.
7. This takes place in an uncertain environment for the global economy, particularly the eurozone. As well as the forthcoming election, there will be complex changes to the constitutional arrangements in the UK that may lead to greater tax competition between the regions and the devolved nations. Simultaneously, given the latest tax-avoidance case involving HSBC, there is a move toward more tax harmonisation and regulation. So, we may see some of the abuses being reduced over time. There is public support for that, and, I think, political support across the European Union. Perhaps it is ironic that Juncker, who has to oversee this as President of the European Commission, enabled some of those deals when he was the prime minister and finance minister in Luxembourg. That is a paradox, but it is one that may work in favour of a much more effective treatment of corporation tax.
8. Part of the problem with the public debate seems to be that, so far, it has been about the trade-off in reductions to corporation tax and to the block grant. It is actually much more complex than that, and various stages are associated with it. Devolved corporation tax is a means, it is not an end. As the Minister pointed out earlier, there is a complex relationship in foreign direct investment (FDI) decisions. That includes decisions on location, including location in centres; growth output; and employment effects. That is sectoral, but it is accompanied by investment flows and spillovers. Agglomeration effects are clearly important, but, as mentioned earlier, so at second or third stage is the development of air routes and greater connectivity with global

- markets. The conditions associated with the reduction in corporation tax and its timing are clearly crucial, as are the kind of current allowances and the new kind of allowances.
9. It is usually historians who look at counterfactuals, but we need to look counterfactually at the evidence from the present base. A lot of the estimates are of what will happen, but I think that a change in the policy environment will stimulate a range of activities and responses that may be beneficial or negative. People often ask about economic forecasting as though you can somehow say what will happen in 2030. The issue for economic forecasting is what measures you should take now to try to get the desired outcome. I will take an example from the oil industry. Massive cutbacks in investment and infrastructure by global companies such as BP have implications 10 years down the line for security and supply. So, sometimes the rush to judgement should be avoided.
10. I will pick up an issue from my paper, as well as the point about uncertainty. The Azores judgement is waved around like a red flag as if to say, "You cannot do this, and you cannot do that". First, political and economic events, and possibly the end of the institutionalisation of austerity in the eurozone, may change the environment. Secondly, a corporation tax rate that is roughly the same as that in the Republic would effectively change the exchange rate for doing business across the border. Things like innovation hubs and a number of actions that you have already taken have recognised that. The targeting of key sectors is important, particularly the MATRIX sectors, with certain conditions attached. There are also sectoral differences between the impact of tax cuts and other locational incentives on manufacturing, services and financial services, which I will pick up.
11. More importantly, one has to look at FDI in the round and particularly at the global linkages that the Northern Ireland economy already has and to locate policy decisions and measures in the development of global value chains. There is a complementarity between, say, ICT and design global value chains and advanced manufacturing, particularly aerospace and certainly agrifood.
12. You can see that, in the report, I have taken something from the United Nations 2007 conference on trade and development summary meeting. It gives selected measures to promote investment and technological upgrading. I highlighted three areas that seem to be relevant to the changes in corporation tax for Northern Ireland, and I then highlighted tax where there might be future development. I thought that was useful information. The other parts of the briefing are about the challenges and opportunities.
13. **The Chairperson (Mr McGlone):** Thanks very much indeed, Leslie, for that and for your paper, which was very interesting. The bit that really intrigued me was figure 2 on economic growth rates and effective corporate tax rates in the United States. It would appear from the graph that corporation tax is not really having much of an impact, because the lines for GDP growth and the like are ping-ponging up and down and all across the way. It probably emphasises that this is just one element in a bigger game plan. I do not know whether other effects in the economy — fuel costs or whatever — might be impacting on that. Can you give us any further insight on that? As you rightly say in your paper, some have presented corporation tax as a silver bullet, which, as the rest of us know, it certainly is not. It is part of a bigger picture. Can you give us any insight into why the graph shows disparity in the consistency of the corporation tax? Has that happened just because corporation tax is the indicator?
14. **Dr Budd:** I will make two points on that. I brought that graph in because I was trying to find a figure for Northern Ireland. I have some other data from Northern Ireland, but I wanted to be as brief as possible. Again, I can send you supplementary evidence that I have

- about the relative performance in GDP and growth. I handed a paper over to Committee staff that the Economic and Social Research Institute in Dublin did in October. I know people there who did that for the Department of Finance. There is some interesting supplementary information in that.
15. **The Chairperson (Mr McGlone):** OK. That would be helpful.
16. **Dr Budd:** The graph, which would be better if it was in colour, shows that the effective rate comes down to 30%. They find in the States that the actual average effective rate can be lower in particular sectors and particular states, depending on locational initiatives. Corporation tax receipts are very volatile, as we know, and there is a kind of lag of changes — sometimes there is a lead and sometimes there is a lag. That is in the United States as a whole, but you can see that the trend rate of growth — it is a very big economy — is relatively volatile. That is the case except for the early 60s, when there was a drop and it went up again. The causality may be a lag or it may be a lead. It depends, as you say, on other factors.
17. Changes in corporation tax legislation in the US — this is why we have had things like the “double Irish”, the deals in Luxembourg, and companies like Amazon and Google in more recent years — have meant that US corporates have to pay their corporation tax in the US. So, they have tried to offset that. There is a complexity to that, and the changes in legislation are not picked up there. I wanted to illustrate that the claims that the Republic of Ireland made — again, there was relatively volatile growth even over the period of the so-called Celtic tiger — are not just a function of corporation tax; they are a function of other activities, such as the size of GDP and access to particular markets, especially the European Union. I am still digging away at trying to get a graph like that for the Republic.
18. **Mr Flanagan:** Thanks, Patsy.
19. How are you keeping?
20. **Dr Budd:** Very well, thank you.
21. **Mr Flanagan:** Good. I had a discussion with the Minister about where organisations locate. Can more be done to weight selective financial assistance (SFA) to encourage more investment outside greater Belfast and into rural and subregional economies?
22. **Dr Budd:** As a former chair of the Regional Studies Association, my answer would be yes —
23. **Mr Flanagan:** That will do you there; there is no need for a “but”. It is all right.
24. **Dr Budd:** It would be a yes. My concern is that Northern Ireland would end up like England. I am a dyed-in-the-wool Londoner, and I am one of the few Londoners who strongly argued that the privileging of London is bad economics and bad politics. An example of that comes from the Institute for Public Policy Research (IPPR), which says that infrastructure spending in London is 22 times more per head than the rest of the United Kingdom.
25. **Mr McKinney:** Crossrail, for example.
26. **Dr Budd:** Do not get me started. If we thought about HS2 etc, we would find that there are better things to do. The underlying question is about agencies themselves. It is the intent of the agencies as a whole. If you are working in Invest NI, you want to get as many firms as possible investing in Northern Ireland. It also seems that, in rebalancing an economy, you have to look at the spatial rebalance, which again is something that has been taken from England — I stress England — but has not really been addressed. People talk about northern powerhouses, but it is about the big agglomerations. There are tensions in the debates about the large rural areas in England that are left out. What about the small towns that have become more attractive to UK Independence Party voters because they feel alienated from the mainstream seaside resorts?

27. There are demonstration effects. If you look at inward investment in Wales, particularly at Sony, you see that, once you have established particular companies and particular activities, there is a demonstration effect of what other companies want to come to. I think that the issue that you have in Northern Ireland, as a relatively small place, is connectivity. You could increase infrastructure, but that might increase commuting into greater Belfast. So, it is about connectivity elsewhere in the region and possibly also across the border if you have cross-border innovation units.
28. One last argument is that, every 10 years, it seems that the IMF and the OECD agree that equality, not just efficiency, makes an important contribution to the growth in the total size of the economy. The real danger is that, if you have spatial inequalities, your potential to grow the whole economy is reduced. So, I phrase the answer in those kinds of terms.
29. **Mr Flanagan:** Is that a yes then?
30. **Dr Budd:** I said yes to begin with. I think that it is a yes. I think that you can always do more. I knew that you would ask me this, Phil. There is an all-UK issue. Every time that Boris Johnson flies somewhere, he does not fly on behalf of the whole of the UK; he flies on behalf of what we now call Borisstan, which London is known as. He flies first class as well. He goes to the Middle East. He does not actually say to companies, "OK, you can locate in London, but there are all these potentials of the devolved nations and other regions in the UK". I think that the whole Union has to look at that and at the way in which incentives are measured. As you know, I was critical in the report on Invest NI, and I was so on the basis that I wanted to see evidence of value added. Often, you can get value added in the smallest and most distant of places. Again, one of my bugbears in the UK as a whole is that there is not enough mapping of subregional data attributes, capacity and capabilities around which you can build things. On innovation, let me say that, in the Clerk's home town, you have an airport. That would make a very good innovation centre, given the linkages. It repairs helicopters. Most people do not know about that.
31. There is another issue, which was in the BBC report yesterday about ICT. On your point about broadband, I can say that you do not have to be in the capital cities. James Cornford did some very good work about 10 years ago when he was at Newcastle University. At a conference, he asked where most gaming software activities take place, and everyone said London. He said no, and he said that it happens in places like Darlington and Worcestershire, which are wired and have a lot of graduates from the universities and because the cost of premises is important. So, things like that kind of software development and ICT can take place in these areas where you have connected infrastructure. That does not necessarily mean physical infrastructure, which may encourage commuting away from those places.
32. **Mr Flanagan:** Are you concerned that we are moving to a situation here that is similar to that in Britain, in that the vast majority of economic development here is taking place in Belfast as, in Britain, it is taking place in the south-east of England?
33. **Dr Budd:** Yes, I am, in the sense that, in any economic upturn, because of the demonstration effect and the benefits of agglomeration, people tend to go to capital cities. You need a set of incentives but also information about these other places and the benefits that there are. For a long time, Manchester was seen as "Madchester" because of its association with certain kinds of music and a drug culture, but that has changed itself, giving it the change in its industrial structure. However, if you look at the set of towns north of Manchester, you see that they are not connected to each other. There will be an upgrade, and, again, that will focus in on Manchester. Yet, just further up the road, you have the Warton plant. The

- Airbus site there is where they make the wings for all Airbus aircraft, yet the connections for those smaller towns are not towards that, if you like, global, hi-tech centre but towards relatively low-service occupations commuting into Manchester. I am not defending people, but again, if you are a Minister, you are Minister for the whole of Northern Ireland, so you want to see general growth. Clearly, domestically, if you are going to attract FDI and have a more dynamic economy, it is about the spatial distribution. That is an important part of rebalancing.
34. **Mr Flanagan:** Do you have any suggestions for how we could improve the spatial distribution of the FDI jobs coming in here?
35. **Dr Budd:** Not off the top of my head, but, again, there needs to be a better mapping of capacities, capabilities and linkages, and the encouragement of certain sectors, such as gaming software, that do not need to be in large conglomerations if you have appropriate shared premises. For those kinds of activities, wired premises are really important.
36. **Mr Flanagan:** Can I ask you about the future of the union? There is talk about the British Government or future British Governments trying to take Britain out of Europe and take us with them. Has any work been done that you have seen to estimate the potential economic impact of that on the economy here? If we were taken out of the European Union, what impact would that have on trade?
37. **Dr Budd:** I have seen a lot of the various measures for business in Europe, but not directly on Northern Ireland. The Chambers of Commerce today called for a referendum to be brought forward. There is a tension in the city, with hedge funds wanting to come out of the European Union but investment banks wanting to be in. I could gather some evidence for you on that. I am happy to do that; it is of interest. I put my hands up: I am pro-EU. I think that it would be severely damaging. Frankly, it is an old story.
38. **The Chairperson (Mr McGlone):** I think that it would. I am out and about, like most other members in the room, meeting businesses. A lot of them trade with the rest of the island and within the island. If further obstacles were introduced, such as red tape, customs and all that, like we used to have it, it would make things more difficult for them at a time when they really do not need difficulties being introduced. That is before we even go down the route of being focused on a reduced corporation tax economy.
39. **Mr Flanagan:** Will you get us a piece of work on that, Leslie?
40. **Dr Budd:** Yes.
41. **Mr Flanagan:** Great job. Thanks.
42. **Dr Budd:** When would you like it done for?
43. **Mr Flanagan:** Tomorrow at 9.00 am.
44. **Dr Budd:** Tomorrow morning?
45. **Mr Flanagan:** Yes.
46. **The Chairperson (Mr McGlone):** We will agree that as a Committee.
47. **Dr Budd:** I just need deadlines.
48. **The Chairperson (Mr McGlone):** OK. We will maybe discuss that at the end.
49. **Mr Frew:** Thank you very much, Leslie. I hope that you are not too sick about the football results at the weekend.
50. **Dr Budd:** I thought that you might say that. St Mirren won.
51. **Mr Frew:** OK. That is who you support now, then.
52. **The Chairperson (Mr McGlone):** Do they pay corporation tax?
53. **Mr Frew:** I will get on message again, Chair. I am a spark by trade. You had a conversation about regionalisation, and you said that things were London-centric. As a spark, we had a thing called London weighting, which basically meant that, if you worked in London, you got extra money. Of course, that was

- a great thing, if you wanted to travel, and you headed for London rather than Manchester, where you did not have that same incentive. If you were going to have to take the pain of being away from home, you wanted to be in London if the work was there. A lot of sparks at that time in the 1990s worked in Dublin because that is where the work was. Whilst they got extra money, they did not get as much as they would have done working in London. How much of that is a barrier? We hear of global companies moving away from Northern Ireland to go to low-cost and low-wage economies. How much of a factor does London weighting have throughout the global companies?
54. **Dr Budd:** Clearly, there is a wage premium in the private sector. London weighting for the public sector — I do not get it, although I live in London — is about £2,500 or £3,000. There is a premium for certain kinds of activities. They are usually associated with high value added, but it is interesting in investment banking, where the wages paid, or at least the bonuses, often do not relate to value added whatsoever. There is a paradox there, and so, in my view, the labour market does not work. There is another thing that you now find when you go to London because of economic congestion, including housing. I recently went to Heathrow at about 6.00 am and got on the Tube; it was absolutely packed. Five or 10 years ago, it would not have been. It was people commuting in to their relatively — *[Inaudible.]* — jobs, and they are commuting further and further out. People talk about cuts in real wages, and transport costs are clearly a cut in real wages. Certain areas that previously had mixed communities in terms of economic profile tend to be much poorer. That is things like footfall in those towns. There is a paradox there. I think that London is economically congested.
55. You made a point about low-cost locations. That is starting to change. You are starting to see a lot of reshoring of activities back from a lot of the emerging economies. I will give you two examples. One is Alcoa, the big aluminium company, which has moved a lot of its operations back from emerging — that is not mining itself but intermediate goods — by automation and capital investment to feed high-end markets. The point about global value chains is that they work both ways. For example, if Bombardier had a joint venture in China, you could get some reshoring of those activities back. Airbus has done it. The point about global value chains is really important. There is evidence from the 1980s. The Ministry of International Trade and Industry in Japan did a major study on the locational decisions of Japanese firms and found that labour costs were sixth. It was about access to market, quality of labour, innovation etc. I would argue that the agglomeration effects can sometimes lead to a reduction in labour productivity and what is called total factor productivity, which is the residue after capital and labour, which is process innovation. There are a lot of mindsets about large corporations and wealthy corporations in which process innovation, which is really important, is overlooked. There is a business cycle. A lot of really big firms have crashed and burned over time that we thought never would have. I have rambled a bit on that, but I have tried to come back.
56. **Mr Frew:** I understand. Your report states that, in 2011, the Economic Advisory Group published a report saying that a cut to a 12.5% rate would produce an anticipated 58,000 jobs by 2030; an increase in employment by 58,000. What does that 58,000 look like? I know that it is an estimated figure, but is that 58,000 in global companies that are massive employers of 1,000 people each or is that much more sprinkled and disparate employment?
57. **Dr Budd:** I think that a lot of it will be in non-tradable services. It will stimulate that. The problem with FDI, particularly in the targeted sectors like MATRIX, is why I recommended in the paper to look at employment effects



- and income investment effects. The targeted approach of MATRIX is good, because that will be about investment and income flows associated with that. It will include stimulation and innovation, which will create a larger economy from which a number of activities grow. Domestic supply chains and logistics are really important. People caricature Milton Keynes, but Milton Keynes is a global centre for logistics, and it is global software companies that are serving those logistics. It is not just big sheds and lorry drivers.
58. The other interesting thing could be gold being found in Northern Ireland. You never know. At the moment, commodity markets have dived quite considerably since their boom. Certain things like that will attract. There are two companies already listed on AIM. It seems that part of that is not just forecasting forward from corporation tax. I mentioned a national investment bank or a regional version of one. You do not have a stock exchange here, but you could, through Northern Ireland, invest and through some intermediary, perhaps private-public bodies, take some stake in those activities, which may be beneficial. Obviously, there is risk and there are public sector rules about the block grant, but you have to be forward looking and look at those linkages.
59. I like diagrams, having started my career in structural engineering, and I will try to make something of those linkages. As long as you have a living wage — not a minimum wage, a living wage — and you stimulate those services, you stimulate skills and possibly vocational education. So, in the round, you could see growth in employment. That might not be very high-value employment in the first stage; it would depend on your strategy.
60. **Mr Frew:** Obviously, it is not a silver bullet, but it is a massive tool in a toolkit. How much will that tool be blunted if we cannot, as a region, manage energy?
61. **Dr Budd:** That is crucial. I had not realised before I took this role that you had the most expensive energy tariffs in the whole of the UK. But, you also have the capacity for renewables, given the climate etc.
62. A lot of the complex regulation around utilities and natural utilities has increased transaction costs, costs for businesses and costs for consumers. The argument that may be made — it is made by Ryanair, and in its case rightly so — is that you have to hedge because energy prices are in dollars, which means that you will not get an immediate cut. You do not want volatility.
63. It seems to me that there is a basis for devolving not just corporation tax but some kind of powers over energy. That is crucial for Ireland, and perhaps all-Ireland linkages are important because of the need for scale and the need for the appropriate mix of energies. Managing energy is absolutely crucial.
64. I have said this before, but Eskom, which is the South African electricity provider, decided to deregulate, but it did not build any capacity. So, it did not privatise. It seems to me that if you are going to have markets, have markets. Obviously, in utilities, you have to have regulated markets. Mining companies, particularly chrome mining companies, are being paid not to produce more than they are getting. That was at the peak last year. There is a paradox there. The biggest problem that South Africa has is its energy. Notwithstanding the distortions of the commodity industry, because they rely on that, that is the biggest problem they have. There is a huge conference going on at the moment called Mining Indaba, which is the biggest mining conference in the world, and that is one of the big issues.
65. **Mr Kinahan:** You may have heard my sort of questions. I have always been concerned that, in both tourism and investment, we are always looking at the big things. Therefore, a lot of effort goes into bringing the big companies here, which is great because that creates the jobs. But, are we building ourselves a problem for the future in that our smaller and medium companies that are trying to expand will find that they

- are never able to do so because they are either losing their skills to the bigger companies or things are not trickling down to them and so they cannot get the trade? Or is that the right way to go, because it links us to the world and to the global markets, which the smaller companies cannot do?
66. **Dr Budd:** Clearly, you have a number of events, such as Titanic and, next year, Derry/Londonderry being a creative city for the European Capital of Culture. If you have linked tourism to sport and culture, you have a wider base. However, I take your point. It is always important to look at the second and third order of preferences, not just the highlight. Again, clearly for politicians, it is important to get those events. I did not realise that Northern Ireland did not have a strong tradition in cycling, which the Republic, Scotland and the area around Manchester do. However, one stimulus from the Giro d'Italia is the number of small cycling shops that have opened up. They are important in terms of skills, for things like repair, and the increase in cycling generally. For that retail end, the important point is about local government finance, which Northern Ireland has successfully changed, and that is recognised by the Department of Finance. There are also things like business rents, rental values and leases. I was talking today about where I live in London. It is ridiculous; unless you have the freehold of shops, you do not stay in business for very long. Also, local authorities are only interested in big multiples, not their local shops. I think that that base is really important.
67. The other thing, apart from getting the reputational capital, if you like, for Northern Ireland as a tourism deliverer — clearly there are things like golf as well — is actually undiscovered beauties in many places. If you wander round London and do not necessarily go to the big galleries or whatever, there are lots of interesting little things. And that is in the capital city; they have been there for a long time and have a long history. With the Titanic, there is a lot of oral history
- around that, which is centred at the moment in Belfast, but is elsewhere. So, I think that that is important in thinking about what you can do at that lower level and making the linkages. When the Minister talked about the Department for Employment and Learning merging, I think that those things are important. You will still get rivalries, but you then have to look at the spatial question. There are parts of Northern Ireland where this kind of tourism, at a smaller scale, is important.
68. **Mr Kinahan:** If we take the same thing to bringing in big companies with Invest NI and corporation tax, is it the same problem? There, the medium and smaller companies are finding it hard to compete, and, therefore, they will struggle; and yet they are the heart of the economy. When things go bad, that is what we are really digging into. Do we need to be much more careful so that we are bringing up our small and medium-sized companies at the same time?
69. **Dr Budd:** Yes, absolutely. It is the same in England, where a lot is talked about small and medium-sized enterprises, particularly in London, but there is not the support for them that there should be. After all, as you have seen in the notes, given the employment structure, cutting corporation tax — unless you get a lot of big companies in — is not initially going to generate a lot of income, but, again, there is conditionality about FDI. If those companies locate, particularly tourism companies, there are their linkages to specialised tourism companies. It is interesting how we have gone from the mass tourism of the old days, where people went to Majorca for two weeks, to specialist activity holidays. I am a windsurfer, and I go on a lot of windsurfing activity holidays. That is the change. A flight to Barcelona has started up. If you did a survey of flights, you might ask why people go to Barcelona. You do not go for the sun and sangria. You go to Barcelona for a range of things. Specialist companies offer those activities.

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70. While flying over here with Aer Lingus, I saw in its magazine that it was pointing out all these cities and activities. It is all very much boutique hotels and specialist activities. That is something to be encouraged. A campaign around that would be useful. “Glasgow’s miles better” had an impact — maybe not so much in Easterhouse — and people’s perceptions changed because of that. I think that people’s perceptions are changing Northern Ireland again. I am not a great believer in anecdotes, but the taxi driver last night was Romanian, and he had been here for seven years. I asked him how it had been. He said that he has a family here, he really likes it, and it has changed. I noticed, the last time I came here, that a lot of American golfers are now coming to Belfast rather than Dublin. There is a promise there, but there is a missed opportunity if one just thinks of it as the big events.
71. **The Chairperson (Mr McGlone):** OK. Thanks for that. Unless other members have anything further to add, I will say thanks very much for your time, Leslie. The issues that were raised by Phil created consensus in the room that we could have something. I have just chatted briefly with the Committee Clerk, and 23 March would be a suitable date for that.
72. **Dr Budd:** OK.
73. **The Chairperson (Mr McGlone):** Thank you very much indeed.



## 17 February 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

### Witnesses:

Mr Niall Irwin	<i>Irwin's Bakery</i>
Mr Stephen Kelly	<i>Manufacturing NI</i>
Mr Con O'Neill	
Mr Mark Cuskeran	<i>SDC Trailers</i>

74. **The Chairperson (Mr McGlone):** With us today are Stephen Kelly, chief executive of Manufacturing NI; Con O'Neill, chairman of Manufacturing NI; Niall Irwin, director of Irwin's Bakery; and Mark Cuskeran, managing director of South Derry Coachworks Trailers. You are all very welcome. It is good to see you all again. Thanks very much for coming along today to impart your experiences and knowledge to this inquiry. It is very opportune that we are dealing with this at the moment. You will have picked up on some of the flavour of the issues that have started to come in our direction.

75. **Mr Con O'Neill (Manufacturing NI):** Chairman and members, first of all, thanks very much for the invitation to meet the Committee again. We looked at the questions that you posed to us, Mr Chairman, and Stephen has prepared a short presentation to address those matters.

76. **Mr Stephen Kelly (Manufacturing NI):** Good morning, Chair and Committee members. As Con said, thanks very much for the invitation to come here

today. Circulating at the moment is a paper copy of some slides that we sent, which, I am sure, you may already have. It is for reference but it is also a call to action from Manufacturing Northern Ireland on behalf of manufacturing businesses on the conditions that this Assembly can help to create so that manufacturing businesses can thrive and create more wealth and employment.

77. The Committee is first to see this document. We will be launching it later today, so we are very pleased to bring it, in the first instance, to the Committee. Europe has an ambition that 20% of its GDP will come from manufacturing industries and that Europe will reindustrialise. Our best guesstimate is that, currently, manufacturing represents about 12.5% of GDP. If you consider growing from 12.5% to the European target of 20%, what would that mean for the success of Northern Ireland? What would that mean for employment, investment and generating wealth in every constituency? Roughly one in five families depend on a manufacturing job, so growing the manufacturing base here would make an enormous difference to every constituency that you represent.

78. From our perspective, the main thrust of what we are calling on the Assembly to do is to look at the cost of doing business here in Northern Ireland. The success of achieving responsibility for setting the corporation tax rate is very welcome, but it is only one of a number of tools in the toolbox that needs to be used by this Assembly to ensure that the economy grows. I know that the Committee's view is similar to ours in that corporation tax is only one element of what needs to be done and, thus, you have launched this investigation.

79. For us, it is about creating the most competitive region in Europe in which to start, sustain and grow a manufacturing

- business, thus creating wealth. In order to do that, we have presented this document to you today, which highlights the areas where we think the Assembly can make a positive difference on behalf of manufacturing businesses and, in a wider sense, all businesses in Northern Ireland.
80. We have presented some simple, straightforward measures, including some things that do not require any investment, which, I am sure, will be a welcome relief to most members around the table and will make sure that the conditions are created to ensure that businesses are successful.
81. For us, there are three main policy gaps that the Assembly should really look at. The first of those begins with establishing a manufacturing strategy for Northern Ireland. There are a number of strategies in which manufacturing is referenced. There are innovation strategies and strategies for agrifood businesses etc, but there is no real overarching industrial strategy for Northern Ireland. We think that is a glaring policy gap, particularly as the European target is to set the ambition of 20% of GDP As we may hear, and I am sure that you will question colleagues here today, there are areas where there is overlap across Departments, but there is not necessarily connection across those Departments, which will be critical to maximising the benefit that corporation tax setting will actually bring.
82. The second policy area is on energy prices, which is no surprise, I am sure, to the Committee, having held your own investigation into energy pricing. Currently, they talk about the “energy trilemma” and the need for sustainable, secure and affordable energy. There are targets on the sustainability area — 40% by 2020 — there are targets for security of supply, which is the minimum standard that is required to make sure that the lights stay on, but there is no policy target for where we sit from a competitive point of view in Europe. We believe that that is an area that creates weakness in the whole energy debate, and, as a result, the area of price becomes the softest and most fragile leg on that stool, and the one that could give way. We believe that the Executive should establish a target on affordable electricity prices.
83. The third area, which was key at the formation of our campaign and organisation, is around industrial rates. Thankfully, the Assembly has been very good for manufacturers in establishing an industrial derating policy. It has maintained that from a regional rate point of view, and held it firm over the last number of years. That is very welcome. It has ensured that the businesses represented around this table and others that we represent are still here. However, there is uncertainty about the long-term future of that. That is creating uncertainty around investments that manufacturers are looking to make because those investments are for the long term.
84. Those are the three main policy issues that, in addition to corporation tax, we believe would make a significant difference: industrial derating established in law, an executive strategy on manufacturing, and a target for competitive energy prices.
85. Looking at rates, where are we? You asked a number of questions about where we are, what are the priorities, how are we doing and where we go from here. For us, establishing a long-term commitment to industrial derating is critical and needs to be locked in through legislation. How are we doing? As I said, the Assembly has been very supportive, and it is a pre-accession relief. It is something that we have here that other regions do not have, so it is a massive selling point that Invest NI and others should use to encourage manufacturing investment here either as FDI or within their existing businesses.
86. When it comes to the review of public administration, we all hope — this House and others — that the promised and anticipated savings from the review of public administration will be seen on the ground by domestic and business ratepayers. The rate

- in the pound is just as important as the industrial derating policy. What actions are required? Industrial derating needs to be secured in legislation, as we have said. The rate in the pound should not exceed its current levels. We have already seen a number of councils — Belfast, amongst others — setting a zero rise in their rates, which is to be very much welcomed, but, unfortunately, some of the other councils have seen rises in their rates. We need to make sure that the Assembly's policy of holding the district rate in the pound is maintained in the longer term and that demonstrable examples of economies of scale are being reviewed by people on the ground in respect of that rate poundage. When it comes to energy, what is needed? Energy prices, specifically in electricity, need to be competitive in a European market. I mentioned the lack of a policy framework around price and affordability. That is a massive gap that is impacting all businesses.
87. How are we doing? There was good news from Power NI and Budget Energy last week, but that really affects the smaller consumers in Northern Ireland. As we sit with the regulator's reports, we have the second or third most expensive energy for everything other than the very small businesses. Of course, those small businesses are really important, but some 50% of consumption is dependent on the large businesses in Northern Ireland. Those are the people who are suffering some of the highest rates of energy prices, electricity prices in particular. There is much work that can be done.
88. With regard to the actions that are required, again, it is about setting a competitive price. There is great detail in the document that we have provided you with this morning. It is about getting control of the margins that are achieved by the generators, driving efficiencies in how the all-Ireland single electricity market operates and works, and taking out a lot of the costs that are added to the bill that do not necessarily contribute to the electricity that people receive through the wires.
89. It is about supporting demand reduction and allowing people who have the ability to be participants in the market, either through their own generation on site or aggregating generator units that may be there as a standby. It is about avoiding unnecessary additional costs in the market, breaking monopolies, particularly around the connections policies and NIE's dominance of that, and allocating costs in a cost-reflective manner across customer groups so that businesses have the opportunity to achieve reasonable energy costs.
90. The third area is around labour. We have seen a greater investment in providing a skilled workforce, but big gaps still remain, and there is some confusion around who does what, for whom and when. It is about investing in a skilled workforce at all levels. If you wish, we can talk about a leadership programme that we are participating in with Queen's University's Clinton school, funded by DEL. It is about a review of employment laws that makes it easier for people to employ people on a full-time permanent basis. The Committee may wish to discuss that further.
91. How are we doing? According to the CBI, we are ranked forty-fifth, compared with GB, which is ranked fifth for labour market efficiencies, so there is a clear difference there that we need to bridge. We have jobs that remain unfilled, not just in the IT sector but in particular parts of manufacturing. Despite the fact that there are 80,000 jobs out there, we believe that careers in manufacturing are not necessarily valued in the way that they should be. The actions that are required are about providing a fit-for-purpose employment law regime. It is about a greater availability of quality leadership and specialist leadership training within manufacturing businesses, as well as those entry-level apprenticeship jobs. It is about trying to make sure that there is a closer working relationship between business and education at all levels. We can provide you with some examples

- of where it is going wrong later in our presentation. It is about enhancing that profile of apprenticeships. A lot of work is happening there. It is about making sure that some funding is passed back to the employers because the success rate is a lot higher than it is through the colleges when that takes place. It is about prioritising STEM, and I am sure that you will have heard that many times in the Committee's previous investigations. It is about investing in that third-level education, not just in Belfast but right across Northern Ireland.
92. Finally, the last area is around the physical and enterprise support infrastructure that we have in and around business. We need to make sure that that serves the manufacturing sector very well. How are we doing? As somebody from the north-west, I know that the pace at which some of the physical infrastructure projects get off the ground is tortuously slow — 51 years for the strong connection between Derry and Belfast, for instance — and it remains unfunded in many cases. There is a fear that Departments are gold-plating some of the enterprise support restrictions and roles whereas other regions in Europe find very agile ways to provide that support. For us, in terms of what actions are required, it is about finding those really flexible ways to support capital investment, in particular in manufacturing businesses. It is about this House lobbying Westminster on some of the accountancy roles around enhanced capital allowances, which will see a large amount of the savings from corporation tax turned back into capital investment such as plants and machinery. It is about a streamlined and simplified process with the support mechanisms that are here for enterprise through Invest NI and others. It is about starting the A6, getting the A5 up and running, and making sure that we have broadband and those other key business infrastructures, and being able to use those infrastructures to get the product to and from ports. It is about our ferry travel, which is sometimes five times more expensive between here and Scotland than it is between England and France, and it is about trying to make sure that there is a single delivery body for capital spending projects that the House and the Assembly is providing for.
93. I will not go into detail about that summary. I am sure that you will want to have a conversation around that, but I will just remind the Committee that the three key policy areas for us are around providing an overarching, cross-departmental manufacturing strategy for Northern Ireland. It is about securing industrial derating in law and setting a target for competitive energy prices.
94. **The Chairperson (Mr McGlone):** Thanks very much, Stephen. As I was going through your list, I was thinking to myself, if you were going abroad, how would you sell the North at the minute, and how would you hope to sell it? That is, essentially, what the inquiry is about.
95. **Mr S Kelly:** We have a very creative, innovative, industrious workforce that has proved itself to be able to compete internationally. That is the key area that we would concentrate on. We have a lot of very strong, family-owned businesses, particularly in manufacturing. Those strong, family-owned businesses have proven themselves internationally to be able to win. That is the area that we would focus on.
96. The counter to that is that they need to be given the conditions that they need in order to be able to continue to compete more often and in other markets. That will happen only if we can establish and get to grips with the cost base that we have and the areas outside of what the business can control.
97. **The Chairperson (Mr McGlone):** Taking it a stage further than the cost base and the issues that you have raised around infrastructure, and looking ahead to R&D and innovation, does more need to be done here by way of selling ourselves in attracting those? It would probably be helpful if you were to look at a very good Assembly research paper, which we will share with you after the meeting. South of the border, they have gone for



- key specialist sectors and sought out specialisms in key areas. Is there any area where you feel the game needs to be upped a bit, whether in research, sectoral advancement or specialisms of the Northern economy?
98. **Mr S Kelly:** Two things continually come back to me in my travels around the country visiting manufacturing businesses. The first is that the administration around R&D, Invest NI support or any other engagement that they may have with government is a very burdensome process for them. They are busily getting on, doing their work and selling their products in markets at home and abroad, and the additional burden of that administration is something that they neither look forward to nor welcome or seek out in many respects. In our document, we talk about a more agile form of enterprise support. Our understanding is that, when it comes to the Republic of Ireland, there is greater investment in that client management process. It is not just about hand-holding; the whole process is smoothed out by people who are experts in the administration side. That is not necessarily the manufacturers themselves. Greater agility in providing that support would be very welcome.
99. **The Chairperson (Mr McGlone):** I saw that word used, and it has popped up several times. In practice, what does it mean? In other words, what is not being done to the same extent or in the same way at the moment as it should be done?
100. **Mr S Kelly:** I am not being critical of Invest NI, just to be clear, but, in Enterprise Ireland, there seems to be a much hungrier approach to making sure that the funding that is available is made available, and that the processes revolving around making sure that that funding is accessed is achieved in a much smoother way for businesses. Those are the comments that we hear from others.
101. We have noticed a big change in Invest NI, to be fair. I think that it is safe to say that the relationship was not the best to begin with, not necessarily with our organisation but with manufacturing in general. The organisation has changed and become much more enterprise-focused in how it approaches its work, and that is to be welcomed and encouraged. However, that does not always filter down to every single layer in the organisation. Sometimes, you are very dependent on getting really good client managers in order to support the process that you are running through with them. We found the leadership to be very supportive in making sure that they understand what the barriers are and helping to provide the assurance that colleagues in Invest NI need, and we hope that that will continue.
102. **Mr Frew:** Thank you, gentlemen, for your attendance today at what is a very important inquiry for us to undertake. Although this has been generated from the corporation tax debate — I have said this many times in the Chamber and in this Committee — when I speak to the large employers in my constituency, who are mostly manufacturers, they tell me that what is more important than corporation tax powers is the cost of energy. When we look at countries across Europe for examples of best practice, we look, of course, to Germany. It made a decision some time ago about its network charges. The Republic of Ireland also has a different tariff from us. What are your views on changing the tariff in this country? How would that affect all customers, particularly domestic users?
103. **Mr C O'Neill:** The first thing that we would like to see a focus on is the size of the cake before it is sliced and ask, “Can the size of that cake be reduced in the overall cost base of the network that we have?” We have seen some elements in that cost mix increase year on year, and Stephen is actively talking to the regulator’s office and the System Operator for Northern Ireland (SONI) about that. We have to ask how we can bring that cost base down.
104. The second thing is that those two jurisdictions that you have mentioned

- took a very aggressive approach and said, “We are going to guarantee that manufacturing and other high energy use businesses have an affordable cost and, therefore, create employment, and, through that employment, generate the wages.” The non-industrial sector members who are having to pay that higher cost at least have a wage cost to pay it, or the cost is dealt with in some other way in their accounting.
105. We have seen that it is not just a matter of energy costs. Stephen was part of a recent programme that was organised with DEL and the Clinton Institute at Queen’s. One of the modules was a four-day trip to Germany, which was academic and practical, with a factory visit to see manufacturing businesses and how Germany is approaching matters. Having spoken to the companies that we visited, we found out that it was not just energy that was more agile and cost-effective; there were a number of other issues. They generally felt that their manufacturing sector was fostered and that people were very focused not just on the direct employment that those manufacturing businesses had provided, but the indirect employment. Sometimes, we lose sight of that, especially in rural areas where, whilst there might be one big factory that may be the focus of a lot of employment, there is also a supply chain not just those doing services but subcontracted services as well.
106. We need to focus on driving down the total cost of energy and, if we are going to be more favourable to the industrial sector, there needs to be some proportionate adjustment for the domestic sector. The Republic of Ireland seems to have found a reasonable balance, and it certainly seems to be working as far as attracting large pharmaceutical and IT employers is concerned. Whilst there are occasional announcements of job losses, they generally seem to be replaced by new ones. That may come back to your point, Chairman, about them having targeted certain market sectors. They seem to have targeted the market sector with the type of jobs that they want. They have looked at energy policy and other support mechanisms so that they have a joined-up approach.
107. **Mr Frew:** I want to turn to the cost of the carbon charge in our industrial belts and the capacity payments. You talked about a smaller cake, but would you support the decoupling from the system of the marginal price of a carbon cost to the generators who do not use carbon, and also the capacity cost? If renewable energy, for instance, cannot be relied upon, why should it get a capacity payment?
108. **Mr S Kelly:** We very much support the Committee’s view on that. Those were two of the key recommendations in the Committee’s report on energy prices, and we have since written to the Committee and offered our support for those. It is our view that generators should get a fair price for the work that they do. It is very important work; but they should only really achieve the price that is due to them and not necessarily receive payment for things they are neither consuming nor generating.
109. **Mr Frew:** The North/South interconnector is vital, of course, for security of supply and addressing the imperfections costs. Action 5 in your report indicates that there would be a mechanism for receiving support from Europe for the North/South interconnector. Can you give us more detail on where that support would come from?
110. **Mr S Kelly:** We do not have the detail on that, Paul, but other regions certainly seem to be very good at obtaining European funding for infrastructure projects. Europe has set itself the ambition to become more interconnected in energy. This is a European objective for which funding seems to be available. Certainly, others were able to get it. The last cost that I saw for the North/South interconnector was €150 million. Even if it is €1 million off, that is much better than nothing. It needs to be borne in mind that every single euro, cent, pound or penny is

- passed on to customers, so anything that can be done to reduce that cost has to be welcomed.
111. **Mr Frew:** If we ever get the North/South interconnector off the ground — we desperately need it, of course — it would take about £30 million off the imperfections charge of about £160 million. Maybe that has gone up. Thirty million off £160 million is not that much of a cut for something that we desperately need. By what other means can we reduce imperfection costs?
112. **Mr C O'Neill:** Although £30 million may not sound like an awful lot, people need to realise that, especially for larger energy users, a few decimal points of a penny, given the volume that they consume, can add up very quickly. Before long, you reach the cost of a job or two or three jobs, because of the volume that they consume, despite all their endeavours to be efficient. As I have said to the Committee before, we have to continuously take off a little bit here and a little bit there and not just think, “Well, it is only a few million”. If we can get a little bit off each of the cost elements of the cake that I referred to, we will gradually start to reduce the cost base. That is what we have to focus on.
113. It is not always about going for one big cut of £100 million. Let us take an issue, look at it, make sure that we are getting value for money and see what further savings we can make. Part of our problem is that we are a small organisation. The electricity market is so complex that, at times, it is really hard to get your mind around it. Once you turn on a button over here, you might not realise that, indirectly, you have turned on another button over there. We need to focus, through the regulator's office and SONI, on trying to take more of that cost out. The imperfections cost is difficult to understand, and it is difficult for us to understand at times why the connection charges for some manufacturing businesses that want to expand are also so high. So, we need to continually challenge that cost base.
114. **Mr Frew:** The movement on the aggregated generator units and the demand-side units seems to me to be positive and a step in the right direction. There was the issue of large users becoming independent of the grid. How will that alleviate the problem, and how does it fit with the issue? What other incentives are there, such as the renewable heat incentive, that can help manufacturers?
115. **Mr S Kelly:** There are a couple of things in that. The regulator announced at the end of last month that licensing arrangements will be put in place for demand-side units and aggregated generator units. That will allow manufacturers to participate in the market. It may be only a few thousand pound — it may be more for someone, depending on availability — but that all comes off the overall pricing and has to be welcomed. The aggregated generator unit and demand-side unit industry is a little concerned by the regulator's proposal. From our perspective, however, it is certainly a move in the right direction and is to be welcomed.
116. You are right about aggregated generator units. They will not have a big impact on manufacturers coming off network. That becomes a big issue only when a manufacturer becomes energy independent. In our view, there is a requirement for an alteration to the transmission and distribution licence for NIE to protect all customers when someone comes off the grid so that the payment that NIE would have achieved is not spread across all other consumers. We believe that that is possible.
117. **Mr Frew:** How would you achieve that? I understand why you want that to be the case, but what mechanisms are there to prevent the burden of network charges being pushed on to everyone else?
118. **Mr S Kelly:** There will be a requirement to change the transmission and distribution licence. At the end of the day, NIE will not be running as much network, so the income it achieves from that should surely not be the same as others.

119. **Mr Frew:** I am going to change tack now and talk about water, which is also in your manifesto. Action 1 on water says that:

*“All our members pay for water — intake and discharge — but consistently NI Water overcharge or incorrectly bill customers. The Regulator must resolve these continuing problems within the company.”*

120. I have experienced that, even over the last week. The sewerage bill alone for a large employer in my constituency, which will remain nameless for commercial reasons, of course, has gone from £800 to £1000 a month in one fell swoop. To add insult to injury, it has also been given a retrospective bill of something like £80,000 dated back to September 2013. It is incredible that in this day and age something like that could happen. That seems to be typical of a problem running through NI Water and the industry. What is your view on that?

121. **Mr S Kelly:** People are happy to pay for what they consume and to pay a fair price for it. I am aware of the example that you referred to. That bill arrived completely out of the blue, and it seemed to be timed in such a way to create concern within the company, because NI Water was about to review the volumes of intake and discharge. It is interesting that it fired first and sent the bill, rather than getting the evidence and the facts correct. I know that there is a dispute about that.

122. That is not unusual for us, and it is not unusual in business. You will be aware of the work that the Consumer Council has done for Altnagelvin Hospital and hairdressers in east Belfast and other locations, which have got a lot of money back. We have heard of a number of examples of where what people are being billed does not necessarily reflect their consumption. To give another small example, a major manufacturer in the north-west has two intakes but one overall water consumption and discharge. However, because it has two intakes, it gets two separate bills. The volumes of those two bills are measured in two separate bands, which

means that the company pays about £50,000 more than it should for one single supply. When the manufacturer approached NI Water about it, to paraphrase a television programme, it was told, “the computer says no.” The two individual items could not be joined up. So, there are issues. The regulator’s own price control on NI Water says that it was 30% less efficient than a comparable company in GB. Some very good work has been done on that, and NI Water and the regulator are to be congratulated, but there is much more to be done.

123. **Mr Frew:** You bring me to my last question on multiple metering in some businesses. How, in practical terms and in billing, can that be prevented? Obviously, bills should be paid based on consumption, rather than through a metered service. There may some large sites that have two inputs, so in practical terms, how can that reversed to one, and how would that affect the bill?

124. **Mr S Kelly:** There may be large sites with different inputs, but they are one customer. I think that these gentlemen here and others we represent understand that you bill your customer what they are due to be billed. There may be different parts of the business, but they are still one customer. Whether it is an IT issue or whether someone is looking at the big consumers and taking an interest in them from a client management point of view or whatever, you should certainly be billing customers only once for what they actually consume and not for any other format. That is our view.

125. **Mr Frew:** Chair, just before I give up my time, can I ask that we write to the Regional Development Minister and Committee to ask them to investigate this? I can provide the details of the company that I talked about.

126. **The Chairperson (Mr McGlone):** Please do, Paul. I just want to tease that issue out a bit further, because I have dealt with cases like that myself. I did so successfully, although it was not on the

- same scale as the one that you referred to, Paul.
127. Stephen, just for clarity on the case that you referred to in the north-west, I presume that there are two separate meters and two bills and maybe two different addresses — whatever it might be. There might be two different roads into the place or whatever. Often, the bills include a sewerage charge. In the case that you mentioned, are there two meters with charges for water intake and for a sewerage amount?
128. **Mr C O'Neill:** I think, Patsy, that there is the practical aspect, in that your overall consumption might put you in a different tariff band. If you have two smaller intakes, your overall volume gets you into that next band even though the two meters are beneath that. Because of the way the bills are done for these businesses, as well as a charge for your intake, there is a proportional charge for any return to sewerage, so you are picking that up twice. That is to do with volume, Patsy, more than anything else.
129. **The Chairperson (Mr McGlone):** Without getting laboriously tied down in one particular case, you are getting two water connections coming in and one sewage exit, yet you are getting two bills for the sewerage. Is that what you are saying?
130. **Mr S Kelly:** Yes, the discharge is charged as a proportion of what you are taking, rather than there actually being another meter at the discharge area.
131. **The Chairperson (Mr McGlone):** I appreciate that, but those bills contain a sewerage element.
132. **Mr C O'Neill:** Yes.
133. **The Chairperson (Mr McGlone):** Right. That is clear enough.
134. **Mr S Kelly:** Just for clarity, in this case, it is one single contained site; it is not that there are various buildings spread across different parts of the town.
135. **The Chairperson (Mr McGlone):** I appreciate that, but there are obviously two water connections and two meters
- coming into it someplace. That is grand. Thank you.
136. **Mr Dunne:** Thanks very much, gentlemen, for coming and making your presentation. Where rates are concerned, Stephen, you mention in your report that:
- “The lack of certainty is holding back investment.”*
137. That is a rather strong statement. Have you any evidence to add to that?
138. **Mr S Kelly:** Yes, we have. In arriving at this document, we went across the country and invited manufacturers and, indeed, MLAs and MPs from the area to meetings. At some of the meetings, a number of manufacturers said, “We intend to expand, but we need certainty about what that will cost us in the long term”. Those investments are made for a 20-year period; they are not made quickly and passed on. If you are building an extension to your factory, you intend to stay in that location for a long period. Without naming individual companies — I am happy to do that outside the evidence session — there were a number that we spoke to that said, “Please ask the Assembly to provide us with clarity and certainty for the long term so that we have the confidence to go to the bank or other funders and to then go to a builder to get this done”.
139. **Mr Dunne:** OK. Do you reckon that the extension of industrial derating is critical to a lot of businesses’ long-term viability?
140. **Mr S Kelly:** Absolutely. Outside any other part of the economy, the thing with manufacturing is that it needs a lot of space to do what it does. In one of the engagements that we had in Fermanagh, we were with the old Fisher Engineering, which I am sure you are very familiar with. It has acres and acres of space because it does big engineering, but you could walk around that site and not see many people. However, if you walked into an office or a shop in other parts of the economy, you would find people everywhere. Manufacturing needs a

- lot of space to do the type of work that it does. The Assembly should be congratulated for the work that it has done to provide industrial derating, and we hope that that will continue in the long term.
141. **Mr Dunne:** What is your attitude to the 40% target for renewable energy? Should we push forward with that?
142. **Mr S Kelly:** We have no objection to the 40% target, provided that it is proven to be cost-effective. On one level, we have an opportunity to create a renewables industry in and around Belfast port and in other parts of the industry. Just this week, one of our members began constructing their own 250 megawatt generators. That is a new part of the industry and is to be very much welcomed. We also have an opportunity in servicing that industry. There is no objection to renewables — absolutely not. However, we object to renewables getting payments that they do not necessarily deserve. The Committee picked up on some of that in its report on energy prices. If those generators are to be there for the long term, they should be able to compete on an equal footing with all other generators to ensure that customers achieve a reasonable price from that market.
143. **Mr Dunne:** Do you recognise that a number of manufacturers and suppliers are involved in the renewables industry here?
144. **Mr S Kelly:** Absolutely. I mentioned some of those already. There are others who have set up —
145. **Mr Dunne:** I do not see a lot on renewables in your report, but perhaps —
146. **Mr S Kelly:** We talk in that section about a centre of excellence.
147. **Mr Dunne:** OK.
148. I will move on to the skills gap. Con, perhaps you could come in on that. A number of us have been to Harland and Wolff, and we recognise the excellent job that you are doing. Can you give us any information on the skills programme that you are involved in? I understand that it was a success.
149. **Mr C O'Neill:** Thanks, Gordon. We worked with DEL on the new approach to an academy. I think that we put 17 people through the first phase of that. Five of them are now in employment with us, and another five are coming in on Monday, I believe. They spend an amount of time in the two technical colleges, and they then move in and do two to three weeks with us on finalisation, which means that they are essentially doing longer and more complex weld runs. At the end of that, they are assessed. We hope to start the next batch, as I said, on Monday, and there is then a final batch to come in just to make sure that we have everyone up to speed on their welding capability.
150. We would certainly like to see that programme extended to a further phase not just on welding but potentially to other trades such as pipe fabrication, steelwork etc, to build up a skills base. We would also like that rolled out across the Province. I know that Stephen has been speaking to a number of our members in mid-Ulster and south Derry etc, about linking with the regional colleges in their areas and trying to get a similar approach. It certainly seems to be a good idea that the DEL budget has been used in this case to create and sustain a programme that is suitable for local businesses in that area.
151. We have a good link, and we have done very good work with the two colleges in Newtownabbey and Belfast. I know that there are similar programmes that can potentially be done in the various campuses of the South West Regional College. So, I would like to see more of those. They may be small acorns, Gordon, but we have to start somewhere, prove the programme and then expand it. We would certainly like to do more work on it.
152. **Mr S Kelly:** I will give you another example on the back of that, Gordon, that would be useful to the Committee. When we were going round the country

- and talking to manufacturers, MLAs and others about arriving at this document — Patsy was at the meeting at SDC — we saw that there was an engineering firm in a community in County Derry, but there was one high school there. The high school no longer did metalwork. This is an engineering firm that depends on that local community and on that school to bring young people out with an interest in that area so that it has long-term sustainable employees coming through to ensure that it is sustainable in the long term itself. However, the school no longer does any metalwork. That is a little example of what is happening in many other parts of Northern Ireland, which is a concern. It might be useful to ask Mark to comment on that.
153. **The Chairperson (Mr McGlone):** I was just going to call on Mark. I know from visiting your place on a number of occasions that there have been issues on skills development. We touched on it, Mark, and we had a discussion at SDC about this. You have brought us into the first area, which is the curriculum. The second element is the connectivity between the local schools and businesses so that people can get it into their heads that this is a place where they can go and get good, well-paid jobs. The third part is the connectivity and the response of the local FE sector. It would be helpful if we could get some thoughts from you on that, Mark.
154. **Mr Mark Cuskeran (SDC Trailers):** Yes, thanks very much, Patsy. We had a meeting last year and one the year before. I want to keep this positive, but it seems that we are pushing for the colleges and everyone else to start programmes. I would like the schools to be ringing every week asking for visits and to maybe send over some of their teachers. We are working with the chamber of commerce and, especially, with Business in the Community and are taking some STEM teachers on work placement with us. We are bringing the Bloodhound supersonic car to local schools so that we can get people interested in engineering. We were talking about an Executive manufacturing strategy, but we would like a joined-up engineering and education strategy. We obviously have INI, DEL and the FE colleges, but in our case, we would like one agency that we can work with, because we have started our own training academy. It seems that there are too many agencies to talk to at the moment.
155. **Mr C O'Neill:** The feedback from our members — I have family experience of this in mid-Ulster — is that, when you get everybody joined up and get it working, it delivers. As Mark says, it is about getting it there. We need to focus on that and get it working simpler. Who do we talk to? Who is going to pull all this together? I think that that would be a great goal and a great achievement.
156. **The Chairperson (Mr McGlone):** That goes back to Gordon's point about the strategic stuff. I am sorry about that, Gordon; I just wanted to make sure that we covered that.
157. **Mr Kinahan:** Can I come in on the education side of that?
158. **The Chairperson (Mr McGlone):** Yes, but I want to allow Gordon to continue.
159. **Mr Dunne:** I will just finish off. I appreciate that, and obviously, Mark, you are competing with Belfast and the large manufacturers that probably pay slightly more. That may be an assumption on my part, but that has been the case. They are perhaps seen to be offering better opportunities in career development. Obviously, those are issues that you have to compete with.
160. **Mr Cuskeran:** We benchmark our salaries, and we find that we are at the higher end of the scale. Even if you look at our factories in the UK, you see that we pay more in Northern Ireland. We think a lot of our staff.
161. We have been trying to promote our business in the last number of years. Obviously, we want to promote the product, but we also want to promote the business so that we can get the

- right type of people. We want to have manufacturing not the way that people see how it was in the 19th century but for the 21st century. What we are trying to do, and what Manufacturing Northern Ireland is trying to do, is to promote manufacturing as a career.
162. **Mr Dunne:** I appreciate what you are doing by bringing in schools and teachers and by getting the message out and giving people a real feel for what it is about. That is to be commended. I recognise that the colleges have done a lot as well. They are so willing to design courses to suit the customer. That is what is important. I suppose it is all about joined-up working between DEL, DETI and the various Departments. Those are real challenges.
163. **Mr S Kelly:** Gordon, those are really good points. A lot of really good work is taking place.
164. **Mr Dunne:** It is.
165. **Mr S Kelly:** The secret now is to take that really good work and make sure that it is common throughout the sector. If I brought 10 manufacturers here and asked them, "Who should you ask about supporting your workforce development to encourage people to be here plus the people who are there?", I am sure that you would get 10 different answers. There is no single answer.
166. We were talking about there being no real clarity about the point of entry and how to manage the process. That joined-up approach between Invest NI, DEL, the colleges and schools etc, is a really important piece of work that the Committee and others can do. When it works, it works really well and is a very big benefit.
167. **Mr C O'Neill:** It is not just the FE colleges. Places on the manufacturing course that I mentioned that Stephen coordinated with DEL and Queen's at Riddel Hall sold out inside 24 hours. That says that there is a demand from local manufacturing businesses for that type of tailored course.
168. We are now working to get more of those courses, because it was an opportunity for local manufacturers to develop. Once you get all the dots joined, the courses that we can put on are very good.
169. Another member in the group is Seamus McKeague, who has done a lot to try to develop leadership. A key point that we saw with the course at Riddel Hall was that it is an opportunity to develop that level of leadership as well. So, we have to keep the focus on delivery on the ground.
170. **The Chairperson (Mr McGlone):** Just for the record, could you talk about the importance of skill development for the enhancement of your industries? This is all going on record.
171. **Mr C O'Neill:** That is important, Patsy, because we can then bring in that talent and grow those manufacturing businesses. We can go back to Stephen's first point and consider the presentation that we had here last year by Daniel Crespo, the EU director general for enterprise and industry. He set the target for us and asked, "Why isn't Europe going for 20% of GDP for manufacturing?" He was not just setting that as a big global European target; it had to be delivered at a local level.
172. The way that we are going to deliver that is by small companies such as Niall's or Mark's having access to that pool of people who can help them to grow their businesses.
173. **The Chairperson (Mr McGlone):** OK, thank you.
174. **Mr Frew:** I have my own view on this. I am on a number of boards of governors of schools, and I have got to the point where I believe that you need to cut out the middlemen. I want your views on this, but I have thought of an example of a school in a certain area surrounded by businesses. Some of those businesses are represented on the board of governors, basically non-executive governors. They would be recruited through no means other than being a local business. That would mean



- that you could advise the principal and teachers about what their technology unit should look like, what equipment it should have and how you get a pupil to be more employable. What are your views on that?
175. **Mr Cuskeran:** The CBI is urging its members to become school governors. I do not know the uptake of that, but that would be very useful. If you look at a board of governors, you find that often you will have ex-teachers or lawyers or whatever. People in the industrial and manufacturing sectors possibly have not put their name forward. It just does not seem like a natural or an established fit.
176. **Mr Frew:** For a businessman, most board of governors' meetings would be like watching paint dry. If there were an attachment whereby a group of business people in that area were joined together and could be used by or could input into the board of governors to mould the school into something different in the future, that is where we need to be.
177. **Mr Cuskeran:** That is an excellent idea.
178. **Mr Frew:** Where you have the situation in which Invest NI and the other groups may well not be clicking right or doing it right, you would cut out those middlemen.
179. **The Chairperson (Mr McGlone):** People take individual initiatives, and you rely on that. What you are talking about is the strategic development of all this stuff. If it is happening down in the Creagh but is not happening in Belfast or Portadown or wherever it may be, then it falls flat on its face.
180. **Mr S Kelly:** To be fair, manufactures need to make themselves available. We would be approached by governors and others who are putting on events, and we would reach out and try to get manufacturers recruited to go to careers days, or whatever the case may be. Let us be honest, they do not always make themselves available. It is a two-way process. If one message comes out from here today it should be that everyone needs to work together on this, whether they are educationalists or manufacturers, and the opportunities are there because the jobs are there.
181. **Mr Humphrey:** I commend the very point you have just made, Stephen. A lot of companies, including businesses in the community that work very well with the Girls Model, which has a number of events each year in north Belfast that I attend, are excellent at that. I commend the companies who take part in that.
182. Stephen, you mentioned a manufacturing strategy. I think that is something that cannot be delivered or achieved by you working in partnership with DETI alone. Listening to the presentations and the questions and answers today, it would seem to me that, at least, DETI would have to be joined up with DRD, DOE and the Employment and Learning Committee. Would you agree?
183. **Mr S Kelly:** Absolutely. Indeed, if we extend it further, we would include the Department of Education. This needs to be a cross-cutting, all-encompassing strategy for the Executive rather than being just a DETI strategy. It probably has a neater home in DETI, as regards reporting on it and measuring against it. For the manufacturers who are here today and the others we represent, this is not just about DETI; it is also about DEL and the Department of Education. In some occasions, it is about DARD. It is about DRD in terms of roads and water etc. This is something that, pretty much, cuts across most of what this House, in its totality, deals with.
184. **Mr Humphrey:** You mentioned transportation costs. You would think that fuel costs, like energy costs, should be coming down given the situation we face with the price of oil at the moment, where there has been a significant reduction. I think you said that it was five times more expensive to ship across the North Channel than it is to cross the English Channel. Is that due to competition in ports such as Felixstowe or Dover, or is it more than that?
185. **Mr S Kelly:** This is something that has come out from, in particular, people

- involved in the food industry. They are manufacturing food here, which is going into the big supermarkets in GB. The cost of transporting product from here to there is greatly impacted purely by ferry charges. In their view, there is lack of competition and that there is much more competition on the English Channel, which has driven down price, not just among ferry companies but due to other forms of transportation such as the Channel Tunnel.
186. We believe that this is something that the House, and not necessarily this Committee, could usefully look at. The cost of travel between here and Scotland is something that food manufacturers, in particular, are flagging up to us as being a big issue.
187. **The Chairperson (Mr McGlone):** Niall, do you want to comment on that?
188. **Mr Niall Irwin (Irwin's Bakery):** There does not seem to be the same capacity on the Irish Sea as there is on the English Channel. I suppose that that drives it. I suppose that it is a chicken-and-egg situation. There probably is not the same demand for extra capacity as what there is on the other side, but it certainly is more costly. We have noticed that. We do not ship onto the Continent at all, but we have priced it, and there is a disparity. For us, it is not a major problem, but I suppose that, if you are taking the competitiveness of Northern Ireland as a whole, yes, it is a thing that needs to be looked at. It is another spanner in the toolbox, just as corporation tax is another spanner in the toolbox. That is all that it is, but it is to be strived at for the good of Northern Ireland plc as a whole, and that is really what we are here for.
189. **Mr Humphrey:** Stephen, when you say that there is something that the Assembly can look at, what do you think that the Assembly can do in that context? For example, the Minister mentioned air connectivity when she was here last week. The Minister is working hard to build up the number of international flights leaving Aldergrove to go to wherever, but, realistically, there is only so much that government can do without giving incentivisation. Is that what you are suggesting?
190. **Mr S Kelly:** No, not necessarily. There may be opportunities there through other operators that can be encouraged from a ferry travel point of view. Sometimes just putting a spotlight on these issues flags up opportunities that you did not necessarily believe existed in the first place. The manufacturers are saying to us that this is a big cost. It is impacting on their ability to compete in GB and then onwards to Europe. A lot of product is leaving Northern Ireland to continental Europe through the Republic of Ireland and bypassing GB completely, so that limits the trade going through our ports etc. It is not the biggest issue that we have. Let us be absolutely clear about this. It is something that members are asking us to flag as an issue that needs to be resolved.
191. **Mr N Irwin:** I think that the road haulage industry would be the one to talk on that.
192. **Mr Humphrey:** Yes, I was just going to make that point. I am hugely sympathetic, because, for 16 years, when I worked in the private sector, that was one of the costs, and geography puts us at a disadvantage. I am hugely sympathetic to the point that you are making. On the matter of the A5 and A6 and planning appeals and so on, have you had meetings with the Minister in DOE to try to push these forward?
193. **Mr S Kelly:** Today is the first showing of this document, and it will form the agenda for our organisation. Just to be clear, this is our document. This is not anybody else's in any respect. This is our agenda going forward, and we will be seeking meetings with the Minister and others. I have examples of where I have manufacturers who are looking to expand their operations and are looking for available space. The single biggest issue that comes back all the time is that that space needs to be near the transportation infrastructure that we have. For instance, one particular manufacturer needed to double its

- space. It is looking to increase its production by 80% this year, which is a great news story. It was looking for additional space, and we looked around and asked around and found that there was space available in the north-west and other places. The manufacturer said no because it needed to be near the roads infrastructure. That has begun to really flag up to us the importance of the Moneynick Road project, which is ready to go in many respects if it receives funding, and the importance of continuing the A5 road.
194. **Mr Humphrey:** Have you done any work on what the opportunity cost is of these infrastructural improvements like the A5 and the A6 not going ahead? What is the cost to companies now or in the future?
195. **Mr S Kelly:** We do have examples where the existing road infrastructure has not been made available in some respects for people trying to get product to market. I know that the Minister had meetings yesterday with one particular manufacturer on that issue. Yes, there are implications: there are cost implications; there are implications in terms of where the investment for that capital is put in place. It would be very positive for regional development across Northern Ireland. Manufacturing is largely not based in Belfast. About 70% of manufacturing is outside Belfast, so they are very dependent on good roads infrastructure to get product to them and product shipped from them.
196. **Mr Humphrey:** Finally, point 3 in the actions under the “Infrastructure” heading is about a supportive regime within Transport NI. What does Manufacturing NI envisage that looking like, and is it not supportive at the moment?
197. **Mr S Kelly:** I can go only with an example, which I mentioned briefly. One member who is based in the mid-Ulster area wanted to ship some material to Warrenpoint, and the natural way would be through Moneynick, down the M2, through Belfast, and down the A1 to Warrenpoint port to get the product to GB. They were not permitted to take the motorway route and, instead, were directed up the A and B roads, which meant going through Armagh, Donaghmore and a whole raft of other provincial towns with a big cumbersome product. It seems nonsense to me that the roads infrastructure that we have is not permitted to be used. The argument was around bridges and stuff — I do not think that it was Transport NI specifically, but the contractor that was managing the motorways — so, instead of sending them round structurally sound bridges on motorways, they directed them down country roads with brick bridges that may be 150 years old and, in some places, may be even older. There are practical things, in and around the roads infrastructure and how they are able to use that roads infrastructure, that are inhibiting manufacturers getting product to market.
198. **The Chairperson (Mr McGlone):** Gordon, did you have a brief query on the back of what William said?
199. **Mr Dunne:** No, I am OK, thanks.
200. **Mr Kinahan:** In all my time in Stormont, I have longed to see lists of actions, rather than strategies, so it is wonderful to see. On education, we need to get you in front of the Education Committee to get it joined up there, and I will do my best to get that. I know that we struggle with resources and some do not get as much as they would like; STEM is only touching a few. If we could get there and really push it, I will do my best.
201. **Action 7 under infrastructure states:**  
*“A single, central and accountable regime”.*
202. When I read through all this, I was wondering how on earth we get it all to happen. We do not seem to have think tanks or a private group. Is there something that you think we should be setting up as a driving force that pulls together all the Departments, takes each action and takes a step-by-step approach through?
203. **Mr S Kelly:** The CBI, in particular, has been concentrating on a piece of work,

which is about the fact that there are lots of infrastructure projects — whether they are for roads, schools or whatever — that are planned, go through the processes and are taken so far, but then the whole thing begins to stall. Part of that is because there is duplication in communication across delivery bodies both centrally and within the Departments. Our view, which we share with the CBI, is that there should be a single, central delivery body, where the Minister could stand up and decide what is spent on his or her budget, decide the priorities and the projects that come first and the speed at which those projects happen; then, as you would have in a business, that goes to another group, and its job is to make sure that that happens quickly, efficiently, effectively and expediently. We certainly believe that that would save a significant amount of money and that it would speed up the whole process of making sure that there are infrastructure construction projects on the ground very quickly.

204. **Mr Kinahan:** That is what I wanted to emphasise. We all have to push for it.
205. When it comes to corporation tax, point 3 of your actions on finance and taxation states:
- “Corporation Tax powers can be ‘supercharged’ by lobbying Westminster for changes”.*
206. What extra fiscal matters can be put in place, whether borrowing from Irish or European ideas? Are there key ones that we are missing?
207. **Mr S Kelly:** I am not a tax expert or an accountancy expert for that matter. I am looking for support around the table.
208. **Mr C O’Neill:** That view was reflected when we spoke to a number of members. Going back, I suppose that members have a memory of a different capital allowance regime that was in place a number of years ago. There have been changes to that, such as industrial buildings allowance regimes etc. Members were saying that they felt that some of those items were valuable and
- wanted to have those as well. The whole document reflects the views of members across the Province, and members were saying, “In bygone years, we had various tax allowance regimes around capital and buildings. They are not the same as they used to be. Can we revisit that?”
209. **Mr S Kelly:** I have a little example. The hope and expectation of this House and everyone else, and what manufacturers want, is that savings that come from a discounted rate on corporation tax are ploughed back into the business and that the funding that becomes internally available is used to increase space, productivity, employment and wealth for the company and for the people who work there. If we are able to have an adjustment in terms of capital allowance changes, it makes that funding more likely to come back in. Some people understand that making a capital investment in a piece of machinery or equipment is written off in their balance sheet across a period of 20 or 30 years or whatever the case may be, but they want that to be congested into a much tighter period, so that your capital allowance is written off in a shorter period, whether that be one year, three years or five years. That makes it more likely that that investment will be put into ensuring that the saving on corporation tax is turned into capital investment either in the product, the service or the space that they are manufacturing in.
210. **Mr Kinahan:** We need to take those points on board. I read the research, which the Chair referred to, and I was really shocked that, in Ireland, some of the changes started in 1958, long before they really kicked in. There is a long way to go on all this.
211. This is my last point. One thing that is not in your list of actions is procurement. When I was in Scotland with the Education Committee, I saw that Scotland had cleverly set up hub companies at a very high level that competed under EU regulations for who got the contract, but then they were able, below that, to pass all their contracts to small local companies.

- That seemed really good. Procurement is under some of the other headings in your document, but we have to do that quicker and better.
212. **Mr S Kelly:** Absolutely. To be clear: there are a number of business organisations in Northern Ireland, and we try to let them do what they do. The CBI, the IoD, the chambers of commerce etc will all have their own areas of work and interest, and we concentrate on the cost-of-doing-business piece largely.
213. **Mr Kinahan:** Thank you. It is a really good paper.
214. **Mr Ó Muilleoir:** Go raibh maith agat, Patsy. Gentlemen, it was a very male-oriented presentation today. It was the same on our side as well, except for Ms Fearon. I apologise for that. I see that, in the powerhouse economies, manufacturing has been a great way into careers for women as well.
215. **Mr S Kelly:** That is in our document.
216. **Mr Ó Muilleoir:** Good. I enjoyed the document and the bit of the presentation that I heard. We appreciate the upbeat attitude that you are displaying here. I thank you and congratulate you on your contribution as business leaders and manufacturers. I am more familiar with Mr Irwin's products than some of the rest. I think that we are on the same side. We like your coming in with a fairly sharp, short shopping list, but there are two things that you could maybe help us with.
217. First, there are those of us who believe that the introduction of corporation tax has the potential to open up a whole new era of job creation. I would like to hear from you where that would be. Where are the sectors in which we could increase our activity, grow the number of jobs and be more successful? You mentioned earlier the great hope that we have that the additional profits that companies make, if they are in profit, will be ploughed back in. How could that happen and what are the areas we should focus on?
218. In that respect, this gives us an opportunity to internationalise our businesses, because the prospect of having a tax equalisation of 12.5% would be very attractive to American companies, Southern companies and European companies that want to partner up with some of our local companies. I wanted to know if you have given any thought to that. This would be helpful to those of us who are saying that we should see how we develop the argument around corporation tax and look at what we really need on our side — someone mentioned the word “turbocharge” — to drive forward. We need an idea of the benefits beyond that nebulous idea that we plough profits back in. That, for me, is very important.
219. The second area, which Mr Kinahan touched on, is education and skills. I wonder whether it is possible to set a target. You have asked us, or maybe all of us together, to set a target of moving from 12.5% to 20% of GDP. We are talking about 80,000 jobs, but no one has put a figure on what 20% would be in term of jobs. It might be useful if we had a target for looking for sustainable, well-paid manufacturing jobs into the future if the corporation tax reduction comes in, as is being suggested, in 2017. What would that target be? Could we get to 100,000 jobs? When will we get there? Would it be 90,000 jobs? That target would be useful, not only for us but for your sector and your industry. Do you want to come back on any of that?
220. **Mr S Kelly:** I will kick off on that, and I will take your second point first. We have been very careful not to put a target or a number on that. Very many business organisations and others say that there are 50,000 jobs here and 30,000 jobs there etc, and people begin not to believe the numbers that are being put out there. We are not in the business of putting numbers out that we cannot stand over ourselves, so we have deliberately not done that.
221. If you look at the employment levels currently, and you grow the manufacturing sector significantly —

- we hope that this House and others share our ambition to do that — jobs undoubtedly come with that. The one thing about manufacturing jobs is that they are in every constituency in Northern Ireland. This will benefit Fermanagh as much as it will benefit Belfast city centre, and that is not to be overlooked. The Committee might look at that and ask, if we hit 20%, what that would mean in terms of jobs and the size of our economy, but we are not in the business of putting those numbers out there, deliberately.
222. **Mr Ó Muilleoir:** Does Mr Irwin agree with that? Do you think that there should not be targets? We all have targets of some type in our own businesses. You need to throw us a lifeline here, because people are asking what will happen with corporation tax, and we are saying that it will increase jobs. Someone needs to say where they will be, what the target is and here is how we will work towards that.
223. **Mr S Kelly:** I can give you some examples of the type of jobs.
224. **Mr N Irwin:** I agree that it would be nice to have a target. It is something that we have generally stayed away from. As things change, job attractions can call for different numbers of jobs. I think that we would prefer to stay away from commenting on that.
225. **Mr C O'Neill:** Our basis, as a group, was to try to focus on individual items and target that. While we are very supportive of what the guys working on corporation tax have done, we have tried to focus our group and our resources on other aspects. It is not that the boys do not want to answer your question; it is not something that we have focused our time on. We have tried to focus on issues that we feel we can deliver on. As Niall said, it is another spanner in the toolbox. As we move Northern Ireland out to a more export-focused economy and continue to drive that forward as we are doing now and create jobs in the economy, the more spanners we have in the toolbox the better. All the competing regions will be trying to catch up with us.
226. **The Chairperson (Mr McGlone):** The question may be this: do you see the reduction in the rate of corporation tax as a significant lever — an item in that toolbox — that will help you increase the number of jobs in your respective firms?
227. **Mr C O'Neill:** Yes. I think that it is one of them. People such as Eamonn Donaghy have done tremendous work in the area and have access to a whole bank of information that we do not have. For an individual business, the situation with corporation tax is similar to the one in which we found ourselves many years ago, where the current rates legislation allowed us to retain some element of the money that we made to make ourselves more competitive, and we were able to plough that back into the business. I see the same thing happening with corporation tax.
228. **Mr S Kelly:** I can give you one example, Máirtín, that will probably be pretty helpful. One of our members in the engineering field from the heartland of mid-Ulster is owned by a North American company. It has two main production facilities. It has a centre in Northern Ireland and one in North America. The news that corporation tax-setting powers may come here has already sparked an internal conversation in the organisation that could result, in the managing director's view, in a doubling of the production capacity in the North, which, in turn, could double employment. The parent company — the main host — in North America is already beginning to plan should corporation tax powers be accepted and set here. That is just one example. That is FDI, but not in the traditional sense. It is not a new business arriving but one that is already here and receiving FDI internally in its own organisation that could be doubling the number of people whom it employs.
229. **The Chairperson (Mr McGlone):** Can you give us some sort of ballpark figure?
230. **Mr S Kelly:** For that one company, it would be the equivalent of another 300 jobs.

231. **The Chairperson (Mr McGlone):** OK. Thanks for that.
232. Sorry, Máirtín. Is that all right?
233. **Mr Ó Muilleoir:** No. First, I see that you represent quite a lot of indigenous manufacturers. We have great respect for that, because some of our friends — we have many friends — have their headquarters in Chicago and New York. Often, you cannot get your head around them because they are subsidiaries, so we really want to get behind our indigenous industries and businesses.
234. We meet the IoD, CBI, Grow NI, and so on. I am saying this to all our friends. Guys, if we pitch for this, we need to see businesses responding as well. The ball is in our court. We need to get our infrastructure sorted. It is a disgrace that we still do not have the A6 sorted out. We need to go back to the Minister on that again and again. Energy prices are deliberately bewildering and a burden on us all as well.
235. **Mr S Kelly:** If you had a spare week, I could take you through it.
236. **Mr Ó Muilleoir:** If we get a spare year, you could go through it.
237. Rates and the rate rebate for industry are very important. I think that what you are saying to us is that you are here to do more than that. Of course, you are paying for much of this through your taxes, rates, and so on, but, if we do our bit, you will do your bit. What I have been saying to all our colleagues in business is that we need to put some meat on the bone. We need to agree and say, “This is where we think we can go from 2017 to 2020”. We are in this together. I say that as a partner in all that you are trying to achieve.
238. **Mr S Kelly:** The purpose of the document is to show that the two worlds have joined there, which is very useful to us from a timing point of view. The Committee have launched this inquiry. The document is on what needs to happen in a post-corporation tax era, or even in a pre-corporation tax era, to really help build our economy. Our focus is on manufacturing businesses. The big thing that comes back from them is the cost of doing business, so that is what our proposals are on. Others will have other areas that they will focus on.
239. **Mr Cuskeran:** We have a factory in the UK and a factory in Northern Ireland. When we look at where we are going to invest, our heart very much says that we want to invest in mid-Ulster, whereas our head sometimes says that there are a lot of reasons to develop in Mansfield in Nottinghamshire. What we are trying to do with the policy — I am talking personally — is to say that, if we can get the cost base down in Northern Ireland so that our head then says that we want to expand in Northern Ireland, that is where we want to be.
240. **Mr Ó Muilleoir:** We understand that. That is why some of us are going to be pitching for the rate of corporation tax to be reduced as well. If we can do that, that would be another attraction. We appreciate what you are saying. You have much more experience of it than I have.
241. **The Chairperson (Mr McGlone):** There is one brief thing that we should talk about while we are on the subject of corporation tax. Your action point 2 states:  
*“The Executive should use its Corporation Tax powers to support not only the international selling of NI but to support investment in indigenous manufacturing businesses.”*
242. While we are here, do you want to expand on that a wee bit?
243. **Mr S Kelly:** A lot of the commentary on the potential to have corporation tax powers here is around the marketing tool that the powers become for Invest NI to sell Northern Ireland for FDI. That has real benefits, which I am sure you will hear about from the Federation of Small Businesses, Pubs of Ulster, the Northern Ireland Independent Retail Trade Association and others. It is reaping benefits for companies that are here already. If we get the powers, we would encourage the setting of a rate, or a signal about what it is going to be,

- very quickly. If we do that, we have to make sure that we promote the benefits for people already here, and not simply have our eye on a potential marketing tool.
244. **The Chairperson (Mr McGlone):** Absolutely. Thank you very much for that, Stephen.
245. **Mr Flanagan:** Thank you for your presentation. This is a very useful report for us to study. I am hopeful that we will adopt some of the recommendations and action points in it, both in the Committee's report and in future Assembly and Executive actions.
246. For your information, I want to tell you about overcharging for water. Between 2008 and 2014, 6,705 commercial organisations were overcharged for water, to the tune of £2.18 million. In the same period, 2,767 commercial accounts were undercharged, to the tune of £4.5 million, and £136,000 of that was written off. The Minister says that that work is continuing and that further account corrections are to be expected. However, when you see such figures and know that NI Water has the ability to achieve 100% clawback, where is the incentive for it to bill customers accurately, if it has up to six years to go back and claw back money for water for which it did not charge customers? I think that that is an issue that we have to take forward with the Department and the Committee. For me, that is not good enough performance from NI Water. I do not want to get into the whole issue of electricity and energy, because we produced what I think are three very good reports, yet our recommendations have been largely dismissed out of hand. I do not think that they have been afforded the credence that they deserve, and the scale of the issue has not been acknowledged by either the Department or the Utility Regulator at this stage.
247. I want to move on to discussing the wider manufacturing sector. I spend an awful lot of time on the road, travelling up and down to this place. I have noticed a considerable increase in the number of lorries and vans coming out of Fermanagh, particularly from Tracy Concrete, Ernecast and the Quinn Group. Those vehicles travel along the M1 and the A4. You have neglected to call for the upgrading of those roads, yet I think that they need upgrading from Ballygawley to Sligo. Is the increase in the number of vans and lorries transporting goods on our roads an indicator that the manufacturing sector is growing and performing well?
248. **Mr S Kelly:** The short answer to that is yes. I was stuck at Moneynick this morning counting white vans and, on my way home tonight, will be counting the white vans at the end of the M2. The number of people transporting goods is certainly an indication of the health of the economy.
249. While in Germany as part of the programme that Con referenced earlier, I was amazed to see the amount of manufacturing product that is moving about. At the European Business School University of Business and Law on the banks of the Rhine, not a minute passed that a boat did not go by, transporting some material up and down the river. There is a motorway right in front of the university, and it was full of lorries transporting manufactured product to the north, south, east and west. Behind the university, there is a railway line that had a few commuter trains, absolutely, but the majority of the stuff that was being transported was manufactured product or raw material being taken to manufacturers. Manufacturing accounts for about 27% of the German economy. That is an ambition that would really transform this place. We really should be aiming for it to be 20% here, because that is a European target and ambition.
250. The number of vans and lorries on the roads is a good, healthy indicator of how well things are going, or otherwise, as the case may be. Unfortunately, particularly for the building sector, a lot of those vans may be dropping people to Belfast International Airport and Belfast City Airport to go to jobs and contracts in GB or elsewhere. That should be a concern for the Committee as well. We should be trying to make sure that those



- manufacturing skills in particular are retained here and used to our benefit.
251. **Mr Flanagan:** I know plenty of people who fly out on a Sunday night and fly back in on a Friday evening. That really has a detrimental impact socially on the people whom we represent as well as on the economy.
252. On the need to tackle regional disparities, and I know that you have a personal as well as commercial interest in this, we all know that manufacturers create an awful lot of jobs outside greater Belfast in rural communities, where you will not get a computer programming company to base itself. We cannot expect everybody to go and do a degree in coding or computer programming and then move to Belfast. What support can we bring forward specifically to help manufacturers create more jobs in rural communities, where people abandoning rural communities to move either to Belfast or emigrating overseas is a serious problem.
253. **Mr S Kelly:** I will pass that question on to Niall and Mark. You have heard a lot from me.
254. **Mr N Irwin:** Gee, thanks. *[Laughter.]* Joined-up thinking would be the biggest help. Joined-up thinking, as far as education is concerned, can prevent duplication of effort. Physical encouragement, such as being available for the launch of a company's general publication, is also important.
255. Northern Ireland's manufacturing sector wants to do the job. You guys have given us great hope. The biggest hope came when you answered the call on industrial rates. The vibrancy of Northern Ireland as a place is tremendous. We have something that other regions will not be able to get. We get it because we are small, can talk to one another and can get things done. The biggest thing that the House can do to help rural activities is to be there, be accessible and encourage them. We have something tremendously special in Northern Ireland, and, as manufacturers, we get great hope from the response from Members. That is to be treasured, and it is a wonderful organisation. As I said, the biggest thing that the House can do is to keep on encouraging and keep on being available, and then you will be surprised what happens. Do not think that we need to do anything groundbreaking. Northern Ireland has the heart to deliver: just help it.
256. **Mr Cuskeran:** We very much think the same as Niall. We have our Assembly, so we have a direct link. I have the mobile numbers of a number of MLAs, and the engagement is really important to us. In the past, we kept doing what we were doing and did not really engage too much.
257. We talk about social responsibility. We have realised that we have to improve engagement with you, schools, universities and Invest NI. We are excited about what is going to happen in future. We just want to promote manufacturing. As I said, we want to promote it as a career and as an industry. We do not want to put numbers on how many jobs we are going to promote, but, when we look at what we are at the minute — 12.5% of GDP — and at where 20% would get us to, I want us to strive for that 20%. We have created 300 jobs in the past three years, and we want to keep creating jobs. We thank you for all the support that you have given us in the past three or four years since the recession.
258. **Mr Flanagan:** Have you taken a position on what impact the North being dragged out of Europe would have on your members?
259. **Mr S Kelly:** Sorry, Phil. Can you repeat that?
260. **Mr Flanagan:** Do you want time to think of an answer? *[Laughter.]*
261. **Mr S Kelly:** No. Genuinely, I am dosed with the cold.
262. **Mr Flanagan:** I noticed.
263. Given the prospect of the North being dragged out of Europe by the British Government, have you taken a position

- yet on what impact that would have on your members?
264. **Mr C O'Neill:** It is not something that we have thought about. For those members that export, it could become an issue. For organisations such as mine, even the recent change in the rate of the pound against the euro has had an impact on us. It is a difficult issue, but it is not one that we have sat down and talked about as a group.
265. **Mr Flanagan:** Is it something that you might do ahead of the forthcoming election?
266. **Mr S Kelly:** We will need to take a view on it, absolutely.
267. **Mr Flanagan:** Finally, what level of engagement do you have with manufacturing organisations not based here? What level of contact does Invest NI have with potential manufacturing companies? What I am hearing is that Invest NI does not bother trying to get manufacturing companies here owing to the uncompetitive cost of energy. Do you have any evidence that that is the case, or is Invest NI trying to attract manufacturing companies to here?
268. **Mr S Kelly:** We do not know what Invest NI is doing in that regard. We do not engage with any organisations outside of this place. We are a membership-based organisation. We are a campaign rather than another CBI in many respects, so we do not have that type of engagement. We are not part of the marketing tool for Northern Ireland. It may annoy some people at times that we say things that appear to be counterproductive —
269. **Mr Flanagan:** Or true.
270. **Mr S Kelly:** — but we are here to represent our members, as you all are here to represent your constituency. We are not afraid to say what people are hurting about. If I were an executive for Invest NI, knowing the cost base that we have here, and were knocking on the door of big manufacturers elsewhere in the world, I probably would not receive much of a response. Energy is traditionally the third-largest input cost for any manufacturing facility. Our current prices are despite drops in global commodity prices. Every other part of the world would be achieving the same benefits at the same time, so it is very unlikely that we would be attractive. We have members that have chosen other parts of GB or the island of Ireland to locate or extend manufacturing plants purely because of the cost of energy. When they sat down with a spreadsheet and worked out what the short-, medium- and long-term benefits were of any particular location, they chose locations other than here.
271. **Mr Flanagan:** In a hypothetical situation, if the rate of corporation tax were reduced to 12.5% but energy still remained as uncompetitive as it is at the minute, would it become much more attractive for potential manufacturing investors to locate here or would they still be put off by the high cost of energy?
272. **Mr C O'Neill:** The reality is that the lower rate of corporation tax will make that part of the calculation more attractive. We should not just accept what the cost of energy is today. We have to try to come up with alternative ways of doing things and get a similar cost advantage over time with that as well. We should not just accept the status quo but challenge it. We might have to shake things up a bit to try to make it competitive. Hopefully, we will get the announcement on corporation tax. If we then get a couple of other levers, that will make things more attractive in the first place to those of us who are here to expand and grow our businesses, and to those who might come and join us.
273. **Mr S Kelly:** Domestic consumers and small businesses, which make up the vast majority of the headcount of electricity customers, are at the middle of where Europe is at, whereas the people consuming most of the energy are at the wrong end of the scale. Why can both not be in the middle? If we are able to achieve that for small businesses and domestic consumers —

274. **Mr Flanagan:** There needs to be acceptance first from some people that there is a problem. Every time that we raise the issue, we are told that there is not a problem.
275. **Mr S Kelly:** To be fair, in recent correspondence from the Minister, there has been an acceptance that there are issues for large energy consumers.
276. **Mr Flanagan:** That is a welcome development.
277. **The Chairperson (Mr McGlone):** Thanks very much, gentlemen.
278. **Mr Dunne:** Chair, may I come in on a point?
279. Stephen, you mentioned Invest NI. Apologies, but I was out and missed the question. You recognise that Invest NI has exceeded its targets in the past year. You recognise its good work. I take it that you have met its chief executive.
280. **Mr S Kelly:** Yes.
281. **Mr Dunne:** Therefore, you have engaged with Invest NI.
282. **Mr S Kelly:** Absolutely. Perhaps you were out of the room at the time, but I did say that that is very much an improving relationship. The issues around the target that was missed for manufacturing exports should be a concern for this Committee and others. The number of manufacturers that are exporting is down. The latest numbers are skewed by a couple of big orders, and that should also be a concern. A major concern, and one that formed the basis of the engagement that we had with the chief executive, is that the money that Invest NI has in its budget from its uncommitted pot of money should go to supporting the things that really make a difference to manufacturers and other indigenous businesses. On the face of it, Invest NI looks as though it is getting more money from the Budget, but that is largely to pay for jobs that have been bought but not paid for yet. There is a reduction in the core uncommitted pot that supports businesses around this table, which will have an impact on energy efficiency, lean manufacturing, skills development and so on. The Committee should be concerned about whether Invest NI receives the right level of funding in the right parts of its budget, not just an overall number, which largely makes up the commentary around the budget that it has achieved.
283. **Mr Dunne:** No doubt it could improve. Even the representatives here today have, I am sure, received support from Invest NI. It is a challenging business, given the competitiveness of it all.
284. **Mr S Kelly:** We have said that we want to see Invest NI well resourced to continue what it does.
285. **The Chairperson (Mr McGlone):** You did put that on record.
286. **Mr Cuskeran:** Both Minister Foster and Alastair Hamilton helped us out. When we were in the Middle East two weeks ago, they were part of our launch. Therefore, we appreciate the work that Invest NI does.
287. **The Chairperson (Mr McGlone):** I think that I recognised a voice on the radio about that.
288. **Mr Cuskeran:** That was all Barry Turley's fault.
289. **The Chairperson (Mr McGlone):** Gentlemen, thanks very much for your time and effort.
290. I have just one more wee thing to say. SurveyMonkey has sent out a survey, so, perhaps you could encourage your membership to participate in it.
291. **Mr S Kelly:** The Committee Clerk shared it with me. We have shared it with our membership and will continue to do that. When is the deadline?
292. **The Chairperson (Mr McGlone):** The deadline is 10 March.
293. **Mr S Kelly:** OK. We will remind our membership between now and then.
294. **The Chairperson (Mr McGlone):** That is great. Thanks, Stephen. See you later. All the best in the meantime.



## 10 March 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey

### Witnesses:

Mr Bill Beers	<i>Beers Engineering Consultancy</i>
Mrs Linda Brown	<i>Institute of Directors</i>
Mr Mervyn McCall	<i>MNV Limited</i>

295. **The Chairperson (Mr McGlone):** We move to the oral briefing from the Institute of Directors (IoD) Northern Ireland. I welcome Mrs Linda Brown, director of the Institute of Directors; Mr Mervyn McCall of MNV Ltd and past chairman of IoD Northern Ireland; and Mr Bill Beers, Beers Engineering Consultancy and a member of IoD Northern Ireland. You are very welcome indeed. Thank you very much for attending. I invite you to make an opening statement, after which we will have a question and answer session.
296. **Mrs Linda Brown (Institute of Directors):** Thank you very much, Chairman. I will begin by reiterating that I am director of the Institute of Directors and that Mervyn McCall is a past chairman. He has extensive experience of business development in export markets, supporting start-ups and helping companies to invest locally and overseas. Bill runs his own consultancy company specialising in energy and is a member of our Northern Ireland committee and business environment committee.
297. I would like to start by voicing our concern about the current difficulties around welfare reform. If this issue derails progress on the devolution of corporation tax varying powers, it would be very regrettable. In our view, the best thing that can be done for someone who is forced to depend on welfare is to give them the chance of employment. While cutting corporation tax is by no means the single solution to creating jobs, it is a major stimulus and it would be a great shame if this opportunity were missed because we do not believe that it would be offered to us again quickly.
298. That brings me to the subject in hand. What else is required in the mix to fully exploit the potential for job creation that a lower rate of corporation tax affords? This was very well covered in the jobs plan that you have probably all seen, which was produced in 2010 by a group of business bodies. The essentials were: a stable political environment; a labour force with the skills needed by business; the flexibility to retrain people to meet the needs of new investors, inward and indigenous; infrastructure investment to support growth and investment; access to finance for growing businesses; and delivery of public services to enhance productivity and outcomes. In the main, these still hold true and, in our written submission to you, we highlighted a number of particularly key issues. They are as follows: in infrastructure, stability of energy supply; in funding, exploitation of the potential of EU funding mechanisms; in public services, unleashing the potential of public-sector purchasing; and in the political environment, making hard decisions that will, ultimately, improve the delivery of services to the citizen.
299. I will ask Bill Beers to explain why we believe that stability of energy supply is a crucial factor in supporting investment by local companies and attracting new companies.
300. **Mr Bill Beers (Beers Engineering Consultancy):** A lot of our members, particularly in rural areas, where

- the grid is stretched, are looking for increased energy supply to expand their companies. We believe, from an economic policy point of view, that investment in grid infrastructure and what we are doing with the whole issue of power generation has a big impact on the economy and on businesses that are currently here. When, hopefully, the corporation tax issue is resolved, we have to prepare for an influx of inquiries from businesses, and, if we are struggling in rural areas at the moment, it begs this question: where do we put any new inward investment? Are we going to be ready? Energy infrastructure takes time to put in place. It takes perhaps five years to complete a power station, if planning goes your way.
301. We have infrastructure issues, and the last time there was major investment was in the 1950s and 1960s. With a 50- and 60-year replacement requirement, we are at a cliff edge and need to invest in the grid infrastructure and on the generation side. There are issues with the North/South interconnector that are constraining the operation of the single electricity market and costing consumers in Northern Ireland millions of pounds. We in the IoD have big concerns about the strategic medium- to long-term plans for increased generation, bearing in mind that Kilroot, a coal-fired power station, is coming off the grid in 2020. There are also the plans for the North/South interconnection, the interconnection to Great Britain and so forth.
302. We also have issues with renewable targets. It is great that we are at 20% or thereabouts, but the target of 40% has major implications for infrastructure, and, above 25%, there are huge issues, particularly with the interconnector. Those issues translate into costs and constraints, which we at the IoD are very concerned about. In addition, because of these investments, the fixed-cost element of the electricity bill will greatly increase.
303. It is disappointing that we have had to rely on the temporary generating capacity, although it is great to have that 250 megawatts of power. The disappointment is that the medium- to long-term strategies are in difficulties. Whilst we are talking about the impact on the economic policy and where you can put inward investment, a 100 megawatt data centre cannot be located anywhere in Northern Ireland. Another one has just been announced for Southern Ireland, which already has Microsoft and Google, in the west at Athenry. It is a great piece of infrastructure. There is an argument that it does not bring many jobs, but they are high-quality jobs and, more importantly, that type of steady-state draw from the electricity grid gives you a huge advantage when paying for the infrastructure. We could not have a 100 megawatt centre anywhere; perhaps we could have one at 30 megawatts, which would be small to medium-sized. In fact, I do not know where we could even put a 30 megawatt centre in the Province.
304. In summary, there are impacts on jobs in rural areas and on the economy. If there is an influx of demand, how long will it take us to deliver the increase in electricity generation and what will be the resulting delay in providing jobs?
305. **Mr Mervyn McCall (MNV Limited):** The things that need to go along with the devolution of corporation tax are regulatory issues and government services to make it easier for business. It is not all about foreign direct investment, although that is going to be very important, especially for attracting profit centres. In the past, our grants system has been more about cost centres. Part of it needs to be streamlining to make it easy for business to relocate here. Lower corporation tax will be the attractor, but we then have to ensure that everything else is in place. That will involve things outside this Department but, as this Department has responsibility for the economy, I see it acting as the point of contact. People need one point of contact, to resolve a planning issue for instance. I know that that is going to the super-councils but there still needs to be a central influence so that things can

- be fast-tracked if necessary to ensure that the economy gets the right status. Money is available from the European Investment Bank. Again, that will be targeted more to the local councils than to the Executive, because it cannot lend the money to the Executive. However, the Executive need to set the framework for where that money can go and what will be expected to come from that. I think that the Department needs to start thinking bigger to make sure that we can pull all those services together in a much more joined-up fashion.
306. On employment, further education and higher education needs to be better targeted to the businesses that we are going to attract. That is another area that goes back to one point of contact for everything: what does business need? Corporation tax is one factor, but what else is there that makes things work? One example from the Republic was during the frost and the really bad weather that we had a few years ago. The Southern Government targeted someone in particular to make sure that the roads to all the key manufacturing businesses were salted so that they were able to get their exports out. It is about that hands-on approach. Business is important; it is where the jobs are going to be. We are talking about 40,000 new jobs. That will transform everything so we just have to make sure that we get behind that in the right way and get those jobs.
307. **The Chairperson (Mr McGlone):** Thank you. Members have a number of questions, but I will start. I looked through your submission last night. One paragraph states:
- “Exploiting EU Funding Mechanisms*
- New and innovative ways of leveraging private sector investment is needed if we are to see any real increase in infrastructure 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 economics of member States.”*
308. You go on to make further reference to that. Looking at the practicalities, what are Departments not doing at the moment that they should be doing, or, more to the point, how are they not doing things at the moment in the way that they should? What private-sector investment are you specifically thinking of?
309. **Mrs Brown:** Our specialist in EU funding was not able to come this morning. He is very closely linked up with European bodies, and he is very much aware that there are potential funds that just are not being accessed. He is Michael Smith; you have probably come across him.
310. **The Chairperson (Mr McGlone):** Yes.
311. **Mrs Brown:** He is an economist. I think that the Committee should meet him and discuss that in more detail.
312. **The Chairperson (Mr McGlone):** That would be very helpful but, maybe in the meantime, as part of your submission, he could provide us with something in writing as a bit of signposting. You mentioned specific funds or specific areas that we could be concentrating on. We have already heard — I heard it at an event yesterday — that access to finance is crucial. In your submission, you referred to the construction sector as being just one example.
313. We have some issues being dealt with later on, I hope, around procurement, if Máirtín comes, but I will maybe deal with that if he does not come.
314. Your submission refers to an investment plan for Europe. Specifically, how should we go about tapping into that?
315. **Mrs Brown:** I am sorry. Again, that is Michael’s —
316. **The Chairperson (Mr McGlone):** That is his brief. OK.
317. **Mrs Brown:** I apologise that I have not come with the information on that.
318. **The Chairperson (Mr McGlone):** That is OK. That is grand. I have a question about civil servants. Your briefing states:

- “Civil Servants should now be working cross-departmentally to bring forward a list of viable projects”.*
319. Will he cover that as well?
320. **Mrs Brown:** Yes. There is an extensive list of projects that have been submitted from countries across Europe — thousands of them — and there is a lack of —
321. **The Chairperson (Mr McGlone):** If he could give us some of that detail, please, it would be very helpful.
322. One issue that comes up time and time again is the skills deficit. It comes up at virtually every event that I attend where business and expansion is being discussed. Foreign direct investment is discussed around the edges but it is usually local indigenous businesses here that talk about the craftsmen that are required. Have you suggestions on that or issues that you have identified? We can all identify the problem, but it is the solutions. I have encountered this issue not just in manufacturing but among skilled tradespeople because it appears particularly in construction.
323. Some construction firms are doing exceedingly well but it is not through work generated here. They are away to Scotland or Australia. One local firm, McAleer and Rushe, which is probably one of your members, has just got a big £10 million contract in Dublin. I was talking to a couple of contract firms last week, and one is talking about Canada as an operational move, such is the scale of skills requirements in Canada for a lot of projects. Another firm is very active in London. The big concern is that those firms are moving out and taking with them all their skilled tradespeople, some of whom will, inevitably, put down roots in those countries. Therefore, when we, hopefully, come out of the recessionary times and into good times, we could be left with a skills void. What are your opinions and thoughts on that?
324. **Mrs Brown:** It is a bit of a catch-22 because the companies that have continued to survive and do well have had to go outside. Indeed, you would encourage people to go outside, but more for selling their products. When you are selling your workforce outside, it is not such a benefit to us. Hopefully, in the long term, those people will be able to be employed here. If we had the investment in energy infrastructure, roads and projects still to be developed, there would be options for people here to develop those skills. Apprenticeships are vital. We also very much welcome the higher apprenticeships and the proposal that the Department for Employment and Learning and the Department of Enterprise, Trade and Investment will come together so that there will be much more joined-up thinking on those, although they have worked very well together.
325. Mervyn, you have experience in the construction sector.
326. **Mr McCall:** Yes, I do not think it is quite as concerning a problem as maybe you think. I was involved with Mivan for 30-odd years and almost all our work was around the world. We would have been the pioneers in taking people from here and exposing them to different markets around the world. I accept that there are happily married and settled Northern Ireland people all around the world as a result, but lots came back with new and better skills, more experience and knowledge, and settled here. A certain number come back and those who come back are more skilled.
327. Rather than worrying too much about those skills going out, because they are helping Northern Ireland companies to export around the world, the underlying problem is making sure that we are bringing through enough new skills and graduates. We need to make sure that we are prioritising the right sectors and giving STEM — science, technology, engineering and mathematics — subjects priority. That is the skills area that almost all this new investment is going to require. Whether in IT or construction, the STEM subjects are the core of the skill base.
328. **Mr Beers:** If I could add one thing as a practical example: an SME with two



- sites in Northern Ireland is thinking of closing one site and concentrating on the other for growth because the support that he is getting from a further education establishment in that area is so practical and positive in terms of R&D and the apprenticeship scheme. It is vital to get the right courses in further education colleges. That will give us the success we need for our own SMEs and for FDI. In considering expansion now, it is about apprenticeships and the R&D support he is getting from those further education colleges.
329. **The Chairperson (Mr McGlone):** Thank you. Just by way of clarity, Mr McCall, my concerns around skills have been reflected to me from within the industry. I am chair of the all-party group on construction, where we hear it from the professional industries. I am reflecting their concerns.
330. **Mr McCall:** I am not playing it down, but there are advantages, too, and it tends to be people in the construction industry who do not go outside Northern Ireland who worry about it more because they see it as taking away some of their skills base. They do not necessarily appreciate that some of those people come back better skilled.
331. **The Chairperson (Mr McGlone):** Further enhanced. Thank you.
332. **Mr Frew:** On the issue of the skills base, I am an electrician by trade — a foreman electrician for 10 years — and I worked alongside Mivan on many construction projects. Even at the best of times for the construction industry in Northern Ireland, it was dependent on a boom in Dublin, as well as a choice of work in mainland UK and further afield. In some cases, I suspect that the work in England subsidised the work in Northern Ireland, even at the best of times. There is also the matter of skill sets, and I always say, as a spark, that you want to see young apprentices coming through, but not too many. It is a fine balancing act. You do not want to flood the market with sparks because that affects wages. What are your thoughts on the present skill set, the availability of apprenticeship courses, the people going towards them, and how that will ultimately affect wages?
333. **Mr McCall:** We have to bring the whole of Europe into that discussion, because that has made a big change now. That is one of the reasons why wages in construction have not gone up as much as they might. We are not only competing with indigenous people now in the skills base, but with the rest of Europe. I think that the wages are going to be restricted to the European wage and whether you can employ other people. It is more complex than it used to be, quite honestly. Having said that, I do not think there is any reason not to do everything we can to bring in more apprentices. There has never been a problem where we have had too many people and not enough jobs. It has always been the other way around; getting the skills.
334. There is a balance now. Twenty years ago, I advised all my family and friends to get their sons an apprenticeship, “Don’t be sending them to university because you won’t be able to buy a plumber in 20 years’ time.” The whole Eastern Europe thing changed that. There is a limit on it now. What happens is that it balances. You can see, even now, what has happened in the construction industry. Five, six or seven years ago on a construction site in London, you would almost not have heard the English language spoken. If you go to one now, you do hear it because, as the market slows down and there is not the same demand, the foreigners go away again. It averages itself out, but the more we put in, the more we encourage employers to take on apprentices, and I think that has to be good.
335. **Mr Beers:** From my experience, working with a lot of SMEs around Northern Ireland, I concur with Mervyn that we do not have too many, but too few, at the moment — too few good, skilled apprenticeships. The difficulty is in getting that aligned correctly for expansion and so forth.

336. I have to confess that I am a graduate, and we need to get people confessing that they are apprentices, raising the parity of esteem. That is the issue. I have a young son who has just made his choices for GCSE and I am very open-minded as to whether he does an apprenticeship or a degree because I see the jobs. The SMEs that I am dealing with have difficulty getting good apprentices who want to stay the course in the right subjects, whether that is a steel welder, electrician or joiner.
337. **Mr Frew:** It is always the case, though, that demand will dictate wages to a degree, and if a tradesman is prepared to move companies, that would help to increase wages, which is key because there is no point in being an electrician or a plumber if you earn low wages. It is about the balance of trying to keep wages up, which will be about demand because, when Dublin boomed, it sucked a lot of work down there. That meant that there was more for us up here, and fewer of us to do it, which increased wages. If you were bold enough to negotiate with your company, or were prepared to move, you raised wages even further. There is still that balance to be struck.
338. I will change tack now and talk about one of your main planks and concerns, which is energy. You will be aware of the work that this Committee has done this year and the three reports we have produced on energy, one of which was on energy prices. You state in your report that we are three times more expensive than in North America. We also know through the work we have done that, for industry and large commercial, we are second only to Italy in Europe for energy prices. What impact do your members see from energy prices at the present time?
339. **Mr Beers:** Energy prices are a big concern for businesses. If it is down to 5% of turnover or thereabouts, it is still a big concern. If you are in manufacturing, which is energy intensive, it becomes even more difficult. We are in a world where we are obviously compared with North America. In the last year, we have dealt with several North American owned businesses operating in Northern Ireland, and energy infrastructure is a huge concern for them, both in terms of price and the ability to expand in the areas where they are located. There is the length of time it takes them to understand how much it is going to cost to get an increased grid capacity, but also the cost of that grid connection.
340. We said in our submission that more and more businesses are moving. We all know about Bombardier's plan to come off the grid because, I suppose, of the comparison with North American prices. The bigger concern is that, for some of the businesses that I have personally worked with in the last year, installing a generator is cheaper for them, because to go on grid means a 15-year payback in the rural area where they are located, such is the cost of the grid. That strikes at economic policy and what we want to do with quality rural jobs. That is the concern.
341. We must look at things like the renewable target of 40%. I am all for renewables. I have an environmental consultancy; I drive an electric car. It is not that it would not be great to reach that target, but the question is whether it is affordable when we have all this other investment to do. Renewables are great, but you still have to have the fossil-based and the gas-fired energies as support.
342. What is our policy for generating in Northern Ireland? Have we given up on that? Are we just going for interconnection? It is unclear, but you see ahead of us the investment in the current grid infrastructure and the investment required for renewables at 25%, never mind 40%. Then you look at the investment in our 33 kilovolt and 11 kilovolt grid. There is a big concern as to where that will put the fixed element of our costs.
343. **Mr Frew:** I will come back to that in a minute, but would you, as an organisation, support a review, which is currently being undertaken, to reduce that target of 40% for renewable energy?

344. **Mr Beers:** From the information that we have, and given all the investments that we have to do now, it is absolutely sensible to review it. It is not just about renewables. We are pushing the boundaries in Northern Ireland, worldwide really, with our mix of renewables. It is about affordability as well. It is great to have a target, but you cannot have a target without knowing its impact on the economy and fuel poverty, and knowing what it is going to cost you in overall terms. The more renewables, the much less on our existing grid infrastructure.
345. **Mr Frew:** To give you a couple of examples, I have heard from a business in Ballymena that has planning permission for a turbine. They were given a letter last week by NIE to say that they cannot get connected to the 33 kilovolt grid. NIE cannot afford to lose that demand. I have also heard from a farmer up in Shillanavogy, away up in Glenwhirry, who also has planning permission for a wind turbine but cannot connect it because the grid, at that point, is not capable of taking it.
346. It seems to have been a running trend over the last number of weeks that NIE have, because of the price argument last year, basically thrown up the head and said that the grid cannot take any more. Is that just in my area, or are those issues Province-wide?
347. **Mr Beers:** I am not here to defend NIE or any one company. The grid is stretched. The grid was built, in the 1950s and 1960s, to be fuelled by two power stations at that time and three big power stations. We have flipped it to microgeneration without necessarily considering the impact. Once we get to 20% or 25% on, it will be better for the stability and the integrity of the grid. It is vital that we do a review here and now. It is great that we are at 20% or 19.5% or whatever up to March of last year. That is terrific. There is now a pause, and we now understand the implications of going further. We need to pause and reflect and see where we should go and what it will cost.
348. **Mr McCall:** To answer your question, this is a Province-wide problem. It is a problem in Tyrone and everywhere. It is the same issue. If you were putting a turbine up now, normally you would go to where you have the most — *[Inaudible.]* — where you get a connection because the connections are so few, so it is a real, real restriction.
349. **Mr Frew:** Obviously, there is a difference between domestic prices and industrial prices. Would you support the redesign of the tariff?
350. **Mr McCall:** I am not quite sure what you mean.
351. **Mr Frew:** We all get charged for the kilowatt-hour, but industry has capacity charges, network costs, generation costs and supply costs. The Republic of Ireland, Germany and other states have reconfigured that.
352. **Mr McCall:** Can I give you —
353. **The Chairperson (Mr McGlone):** I am conscious that we could be veering slightly off onto another train here.
354. **Mr McCall:** I will come back to the question of what our members think about energy prices. They all think that they are too high; however, if you are a local company competing locally, that is OK, because we all pay the same electricity prices. One shop pays the same as the next. However, if we want to expand our economy and encourage exporters and encourage FDI, it does really become a roadblock to investment. It is really an issue that needs to be dealt with. My last point is on lowering the goal from 40%. I think that it should be lowered because it will be economically unsustainable.
355. **Mr Frew:** I will leave it there if you wish, Chair.
356. **Mr Humphrey:** Thank you very much for your presentation. Mike Smyth gave evidence to the Committee for the Office of the First Minister and deputy First Minister a couple of years ago. I think that it would be useful to have him here at some stage because I am interested

- in his view on whether Departments here are sufficiently joined up on the issue of Europe, particularly European funding, which we simply play at compared with the Irish Republic. Some of you have touched on that. I think that that would be useful.
357. In your opening remarks, Linda, you talked about yesterday's debacle around welfare reform. I spoke to a number of business people yesterday, and I am afraid that that has caused considerable concern in the private sector. How does what happened yesterday and what will play out of the next few days look to you guys at the coalface?
358. **Mrs Brown:** Our main concern is that it will derail the devolution of corporation tax. That seemed to be all on track, and we are all getting geared up to it actually happening. All of the main parties seemed to be supportive of implementing it once we were given the powers. It is a bit of a blow. We wondered whether we should bother coming today. Is there still going to be an interest in it? It is disappointing to hear that, because, as has been said, one of the items in the jobs plan is the stability of our political environment. If that is up in the air again, it is another difficulty for us when we are trying to present Northern Ireland as a place to come and do business in and grow your business.
359. **Mr Beers:** Investors in business like stability. They like stability in legislation. They like to know where things are going with a degree of certainty.
360. **Mr Humphrey:** In fact, that was the point that I had written down here: stability for foreign direct investment. Political stability is part of that. We have not travelled that far in time from the bad place to the stability that we have now. There are people out there who want to destroy that stability. When you or your members go out into the world to sell products or services for Northern Ireland plc, how damaging is this going to be? The point about stability is absolutely right. For example, it looks as though the visit to Washington next week by the two senior Ministers in this Administration is not going to happen at this stage. How could it, when you think of it? The stability that you talk about, which is so vital, just is not there at the moment. How damaging is that to Northern Ireland plc, and for the private sector in particular, when you go out internationally?
361. **Mrs Brown:** For 40 years or so, people have gone about their business and managed to keep on going. It seemed that we had an opportunity to take our future into our own hands and take a step forward. It is a feeling of disappointment. I imagine that people will still go on. It might make Invest Northern Ireland's job a bit more difficult.
362. **Mr McCall:** I spent a big part of my life out around the world selling a Northern Ireland company through the Troubles. It is an obstacle and something that you have to deal with, but, by and large, you find a way of dealing with it. The First Minister and deputy First Minister are experts at putting on a good front when they go abroad. So, the damage is twofold. One is when people start to get a little bit of detail, they get past the first thing and they start talking to their advisers. The first thing that anybody considering investment in a new location will look at is the political risk and whether the legislation will stay the same, whether there is consistency and all those sorts of things. That will definitely cause a problem.
363. The second problem is that, from dealing with businesses in the last year, I just get the feeling that we are coming out of a recession and people are looking up and feeling more positive. If people feel positive, the economy recovers. It is all about morale. Since the announcement of the Stormont House Agreement and the whole agreement on corporation tax, there has been a whole buzz that we are serious about this; we just have to get a date and a rate agreed, and we can go out and sell ourselves. What has happened has just let the air out of the balloon.

- What is the point? I think that that is where the big damage will happen.
364. **Mr Humphrey:** The point is that, for Invest Northern Ireland, which is the organisation that is charged to go out to attract that foreign direct investment, it is a very difficult set of circumstances, because if welfare reform is not resolved, the probability of the devolution of corporation tax being realised is probably nil. What effect will that have?
365. **The Chairperson (Mr McGlone):** It is hard because we do not have a crystal ball. Touch wood, the situation now might change in the next week or so. We do not know about that.
366. **Mr Humphrey:** We can only deal with the circumstances that we are dealing with now.
367. **The Chairperson (Mr McGlone):** Our inquiry is about what happens post-2017, touch wood, when it happens. If I could just intervene on that point, Mr McCall, you are a person of considerable experience in these matters. If you are going abroad to the US or mainland Europe, what are the current and potential positive selling points for the North? You have been there through the really difficult times when bombs were exploding on our streets and people were being murdered. Take us a stage further and tell us the positives that are currently there and the positives that, potentially, will be there.
368. **Mr McCall:** The positives are the fact that we have a good education system. We have a good, well educated workforce. We have the skill base. We all know our problems, but you are asking me what story we tell, which, by and large, is true. We have a really good work ethic and have people who really want to get the job done and have a will-do, can-do attitude. Those are all the things that you talk about. You talk about the fact that you are part of Britain and people talk about working to British standards ISO. People understand British standards easily. You also talk about the fact that you are Irish, because everybody loves the Irish. That is quite good.
369. Going forward, what will make the difference is lower corporation tax. That is important. I would love to be able to say, “Better than that, we have a dedicated Department in our Government that covers everything you ever need to know or every support you need. If you come and invest here, you have one place to go. Whatever your issues are, they’ll point you in the right direction for solutions.” Invest does that a lot for indigenous companies, but we need some sort of body like that to help the people coming in. Those are the two big pluses you want — that and corporation tax. I am taking political stability as a given. I want to be able to talk about political stability, no matter about some of the cracks that might be there.
370. **Mrs Brown:** We have a population that has an appetite for change and growth. There is a willingness to be flexible, with young people who can be quickly translated from one type of business into another. The good skills work that is being done by the higher apprenticeships programme is a good step forward because we can say that we can deliver people and train them up quickly. We have always said that our major asset is our people. That has been recognised. The investment that is put into FE and HE is very important. We have young people coming through schools with a clear understanding of what their career opportunities are. Good steps have been made in those areas.
371. **Mr Beers:** The other important thing, looking forward, is the speed with which we can implement things on the ground when you are talking about investment. Is it going to be held up in planning? Is it going to be held up because the infrastructure is not there? If that is the case, they will just —
372. **The Chairperson (Mr McGlone):** I think that we will be coming onto that. Gordon wants to explore the infrastructure stuff later. William, you wanted to follow

- through on some of the points that you made.
373. **Mr Humphrey:** You said, Linda, that you wondered whether it would be worth your while coming here today. From the point of view of my party, we want to see corporation tax devolution happening. It would be hugely beneficial for Northern Ireland, given the right deal around the block grant and all that. What is the opportunity cost or the impact to business in terms of international markets if the devolution of corporation tax does not happen?
374. **Mr McCall:** For business, it will be as you were. We will still carry on doing our best, but —
375. **Mr Humphrey:** With a hand tied behind your back.
376. **Mr McCall:** Yes, but our best has not been good enough. That is the point. Our economy is not growing. The private sector is not growing. We are not creating enough jobs. So, we will just go on as we have been. We will do our best, but it is not good enough. That is the thing. In 20 or 30 years, we will still be worrying about the most vulnerable in society because we will have not actually done anything to change things. If we do not do something to change it, we will still have vulnerable people and we will still be arguing about whether they are being looked after well enough. The way to look after the most vulnerable is to create enough jobs so that anybody who wants a job can have a job. That is the best way to get people out of poverty.
377. **Mrs Brown:** We are moving from a situation where we are dependent on state aid — European funding has changed; it has largely gone — to a situation where people have an incentive to create more wealth through lower corporation tax. They will not just buy a new car with it; they will invest it in their business. Every morning, you hear on ‘Good Morning Ulster’ a story about another company investing money and more jobs being created. People want their businesses to grow; they want to provide employment for people. They want Northern Ireland to succeed. Corporation tax is one of those incentives. It would give us a little bit extra that they will not find in other parts of GB. Obviously, we have them in the South of Ireland. It gives us that opportunity to compete, with something different.
378. **Mr Dunne:** Thank you very much for the presentation. Apologies for nipping out. You talked about investment in infrastructure. I think that we are all very supportive of that. There was mention of how a well-developed infrastructure reduces the effective distance between regions. Can you elaborate on that, please?
379. **Mr Beers:** I suppose that what we mean is that, in our economy, a lot of areas appear rural, perhaps because of the infrastructure, the roads to them and where we have greatest strength in the electricity grid.
380. **Mr McCall:** Yes, infrastructure includes roads, but it is also the electricity grid, broadband —
381. **Mr Dunne:** Yes, and IT.
382. **Mr McCall:** And, you know, broadband has the ability to bring something right to where you are, in rural Tyrone. A better road reduces your travel distance from one hour to 40 minutes, which makes a huge difference. All those things make it easier. We are small enough to be one, really; but infrastructure is the thing that makes the difference between central Belfast and somewhere more remote.
383. **Mrs Brown:** There is still a lot of potential to be had from broadband and the existing connections, the speed and infrastructure that we already have. They should be exploited.
384. **Mr McCall:** I always think that we are very good, but I do not live that far from Belfast. Then I speak to people outside Belfast who say that they cannot get this or that. We are better provided for than most other cities.

385. **Mr Dunne:** Interestingly, we had representatives from Manufacturing NI here recently. They said that 70% of the manufacturing jobs are outside Belfast. That is quite interesting; we do not tend to think that way. There are a lot of small businesses doing well in the rural settings, and they have those issues that we are very much aware of: broadband, and the need for superfast broadband. Accessibility and transport links are obviously critical. The more investment that is put into roads and improvements the better. Sewerage systems and water are all issues of concern for business.
386. **Mrs Brown:** I think that a lot of companies have really adapted to the new technologies. Down in Enniskillen, there is a company that sells plastic bottle labels. It personalises those Coke bottles that bear your name, and it can provide those from Enniskillen to everywhere. It can all be done very quickly because of the technology, but, sometimes, the transport and getting the product out is difficult. We need to make sure that we have the connections.
387. **Mr Beers:** The other important thing that we imply, in the passage on the issue of regionality or being rural, is this. If — no, let us be positive — when we get corporation tax —
388. **Mr Dunne:** Correct.
389. **Mr Beers:** — we will potentially have a deluge of enquiries. We need to be very clear about what our priorities are as to the type of business that we want to attract and to which we give our finite resources. We also need to be clear as to where we want those businesses. I am not saying that you can overly influence businesses, but businesses that are reliant on broadband can be situated anywhere where we have good broadband without too much cost impact to that business.
390. **Mr Dunne:** So, broadband is important.
391. **Mr Beers:** Broadband is the issue, but also perhaps we are at a stage where, if we want corporation tax powers and jobs delivered speedily on the ground, we should choose where those hubs should be. That is a bigger policy issue, and it is political, obviously. However, we are going to have to invest in infrastructure ahead of time, perhaps in Invest NI's business parks or whatever, but we need to be clear about the other types of infrastructure that we are talking about. What type of industry are we trying to attract?
392. **The Chairperson (Mr McGlone):** Are you hinting that you hope to target certain businesses, or maybe you are doing more than hinting at it. For example, in the South, they have targeted specialisms and key areas of business.
393. **Mr Beers:** Getting Apple to go to Athenry is a huge win, on a data centre. There is no need for a data centre to be in the centre of Belfast, if that is what we attract. It could be anywhere, if we have sufficient infrastructure of the right type. However, we need to be clever in what we target and in how we prioritise this attractive corporation tax rate and target our resources and manpower to deliver at the right places.
394. **The Chairperson (Mr McGlone):** It is very obviously strategic. Sorry, Gordon.
395. **Mr Dunne:** That is OK. I think you have raised some good points that will be of benefit to us. Thanks very much.
396. **The Chairperson (Mr McGlone):** Just picking up on that, so much work, depending on the nature of your business, is done via smartphone technology. Have you done any work with Ofcom around the issue of tackling the roll-out project through Arqiva?
397. **Mr McCall:** No.
398. **The Chairperson (Mr McGlone):** No, you have not then. On the not-spots thing. That means so much to sales people. The ability to pick up on calls and all of that sort of communication with companies is very important.
399. **Mr McCall:** I meant to cover that along with broadband. Mobile technology and

- coverage are so important, and 3G coverage —
400. **The Chairperson (Mr McGlone):** 4G now.
401. **Mr McCall:** — and 4G is becoming so important everywhere.
402. **The Chairperson (Mr McGlone):** OK; thank you for that. We had scheduled someone else to speak here. It is an issue that actually came up yesterday, and, again, it probably feeds into this from more or less the same quarter. I hosted an event here yesterday for the Federation of Master Builders, and a big issue that came up was the whole question about the impact of procurement regulation, particularly on SMEs. You have raised it as a concern. You have also raised the issue of inconsistencies between public-sector procurement practice here and in other parts GB and, indeed, the rest of Ireland. Will you just tease that through with me? For the purposes of the record, will you give some examples of how you see that being problematic?
403. **Mrs Brown:** Where to start? Our view is that there is an extreme lack of competition in public procurement here. Everything is now within the Central Procurement Directorate (CPD). It has grown like Topsy and brought everything in. I know that the rationale behind it is about centralising and that there should be efficiencies of scale and so on, but for a lot of contracts there seems to be a lack of individual specialist information. What we get is the tick-box, one-size-fits-all mentality, but it does not fit all. There is no doubt about it.
404. In other areas you get private-sector people who are specialists in devising procurement contracts, overseeing and monitoring them and making sure that they happen and are delivered as the contractor says they are going to deliver them, rather than a situation where a standard contract goes out, things get added in, costs increase and no one really takes control of it and says, “Look, this what you said you were going to deliver; you deliver that”.
- That monitoring role is not happening, whereas if you have a private-sector person in charge of the contract, they will make sure that it happens as per the contract. That is what we seem to see in other areas. Things work quicker. There is more knowledge from the private-sector company because it is working to the brief given to it by the commissioning body or organisation.
405. There is also more scope for innovation. I know that some work is being done with CPD on creating more innovation, but in our view that could be considerably increased. We are not even necessarily getting good value for money for the public purse.
406. **The Chairperson (Mr McGlone):** I am glad you raised that point, because you are taking me in the direction of an issue that has come up on numerous occasions. At what point does good value for money become sub-economic tendering? To my mind, based on experience of dealing with cases, the sub-economic tendering issue has an impact on our local economy, because many of us have sat in a room with subbies and contractors. There are only two outcomes to that, ultimately. Either the firm that is sub-economically tendering is sucking off another profitable part of its business to sustain that — and that usually goes wallop and hits the wall — or a whole crowd of suppliers and subbies are, basically, shafted financially. That is where I see the point of procurement delivering sufficiently and on time, but making sure that no one is financially disadvantaged as a consequence of out-and-out wrong pricing.
407. **Mrs Brown:** A private-sector specialist will know what the right price band is.
408. **The Chairperson (Mr McGlone):** It seems to me that you are saying that there is a lack of knowledge in the public sector around these issues to be able to deal with them. That is one element, but would you welcome increased regulation and control to make sure that prices are sustainable?



409. **Mrs Brown:** It would depend on what system we are operating. We would like CPD to be brought down to the kinds of services and products that are more generic. There is no problem with CPD doing a stationery contract; that does not matter, but if it is a contract for a new building for a hospital, you would like people with an expertise in that to handle that contract and to understand what value for money will look like and what the right level of pricing will be. We are not in favour of greater regulation, I have to say. It is about whether the system fits.
410. **The Chairperson (Mr McGlone):** How do you deal with that? You want to have an efficient economy, no matter whether you have corporation tax powers or whatever. How do you make sure that you do not wind up in situations where people are trod all over and cast aside financially or, indeed, where a project could be stymied or have to be re-tendered? God knows we have seen enough of that at Desertcreat. You are probably well aware of that fiasco. How do you ensure that that experience of realistic pricing — you are the people who know about these things — is enshrined in practice?
411. **Mr Beers:** We have always argued for the right balance between private- and public-sector knowledge being brought to the table for given contracts. As Linda said, what that mix should be depends on the nature of the contract. That flexibility does not seem to be there at the moment in the CPD environs. We have had examples recently, where a specification in the rest of GB, which complies with European law, is not deemed adequate in Northern Ireland. How can that be, in terms of adequacy of meeting European requirements?
412. **The Chairperson (Mr McGlone):** Are you saying that some of these Europe-initiated laws are interpreted differently here than they would be in GB?
413. **Mr Beers:** Absolutely.
414. **The Chairperson (Mr McGlone):** It would be helpful if you could give us a few examples of that; I do not mean now. To get back to my original question, how do you ensure that fair pricing is enshrined in procurement practice if not by regulation?
415. **Mr Beers:** One of the big fears here is that it always seems to be based on the lowest cost. There is a preponderance to that. It is about the ability of whoever is making the decisions through the tender analysis process to be able to say that it is quality and it is cost, and below that base cost the bid cannot be accepted.
416. **The Chairperson (Mr McGlone):** You know that quality and cost are included in that and it is about the weighting that you give to them.
417. **Mr Beers:** It is about the weighting and the difficulty in getting beyond the weighting of 30:70.
418. **The Chairperson (Mr McGlone):** I take that point; it is a fair one. Thank you very much for that. You have given us a lot of food for thought and a lot of very valuable information. Linda, you will be able to provide us with some information on the European issues.
419. **Mrs Brown:** Yes.
420. **The Chairperson (Mr McGlone):** Thank you very much indeed. That has been very helpful. I hope that we have productive success, including the delivery of corporation tax enabling powers as well.
421. **Mrs Brown:** Fingers crossed.
422. **The Chairperson (Mr McGlone):** Fingers crossed. Thank you.



# 14 April 2015

**Members present for all or part of the proceedings:**

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Máirtín Ó Muilleoir

**Witnesses:**

Mr Michael Atkinson      *Northern Ireland*  
 Mr Ian Bailie              *Electricity*  
 Mr Peter Ewing  
 Mr Nicholas Tarrant

423. **The Chairperson (Mr McGlone):** I welcome Mr Nicholas Tarrant, the managing director of Northern Ireland Electricity (NIE); Mr Peter Ewing, deputy managing director and director of regulation; Mr Michael Atkinson, head of generation connections; and Mr Ian Bailie, distribution planning manager. I have met you before, Mr Tarrant, but not in a formal capacity; this is your first time at this Committee. I am sure that you were listening intently to the previous session and one of your colleagues was with us. The floor is now open to you to make your opening remarks, and we will then move to the questioning session from members.
424. **Mr Nicholas Tarrant (Northern Ireland Electricity):** Thanks very much, Chair. Good morning to everyone on the Committee. Thank you for the opportunity to brief the Committee today on issues relating to the electricity network. Specifically, we will deal with the status of the electricity grid in the context of economic and business growth over the coming years. We will also deal with connecting renewable energy to the electricity network.
425. **The Chairperson (Mr McGlone):** Excuse me. There is a bit of interruption, as you have probably noticed. Can the Committee staff check that out, please? Please continue, Nicholas.
426. **Mr Tarrant:** We have made two separate submissions to the Committee, which I hope you have. The first is titled 'NIE Briefing on Grid Capacity in Northern Ireland in the Context of Enabling Economic Growth' and the second is titled 'NIE Briefing on Connecting Renewable Generation to the Electricity Network'. Both issues are complex, and we hope that the Committee finds these documents helpful in setting out the current status and our view of the way forward on both subjects. I propose to make some very brief introductory remarks, and I will then hand over to Ian Bailie, who is the manager of our distribution planning function. He will deal with the issue of enabling economic growth, and then Michael Atkinson will say a few words on connecting renewable generation to the network.
427. NIE is a regulated company. It is regulated by the Utility Regulator (UR), and we operate in the energy sector under policy direction from DETI. Currently, we are just over halfway through the RP5 price control implementation. We are expecting a major ramp up in work volume between now and September 2017, which is the end of the RP5 price control period. We are also at an important stage in the RP6 price control preparation. The RP6 price control will set out the work on the network between 2017 and 2022, and I believe that it is particularly relevant to today's discussion on grid development. 2015 is a key year for NIE to develop a business plan for RP6 and to engage with stakeholders on matters relating to electricity network development. We have a structured RP6 stakeholder engagement process that has a steering group with representatives from the Utility Regulator, DETI, the Consumer Council and NIE. The current review that

- is being undertaken by this Committee is coming at a very good time as a potential feed in to the RP6 process.
428. NIE is committed to investing in the electricity network to support economic growth. Under the current regulatory regime, the cost of these investments is paid for over a 40-year period, so it is important to take a long-term view on what is effectively strategic infrastructure. We have ideas and recommendations that we hope the Committee finds useful, and I will now pass over to Ian first to deal with the electricity network and economic growth. Michael will then follow and deal briefly with renewables.
429. **Mr Ian Bailie (Northern Ireland Electricity):** Good morning. NIE undertakes two distinct types of capital investment on the electricity network: first, asset replacement; and, secondly, investment associated with load-related growth. Asset replacement accounts for almost 90% of our network investment, and that is mainly due to the replacement of age-expired assets or assets that are outside normal operating condition due to their condition. That is really down to the fact that the majority of our network dates from the 1950s and 1960s. A lot of it is coming up for replacement.
430. I am here primarily to discuss the load-related element of our investment strategy and how this is used to develop the distribution network in Northern Ireland. Key drivers for load investment are load growth, reinforcement associated with customer connections and opportunistic investment. By opportunistic investment, I mean that, where other utilities are doing work, we can gain efficiencies by doing work in cooperation with those utilities and other public bodies. Another key driver is investment associated with delivering distributed generation. The main driver for load investment is the load-related investment.
431. Similar to all electricity companies, NIE has a formal process to monitor network utilisation and to forecast future load at individual sites across Northern Ireland. That allows comparison between future peak loads and system capacities to identify potential hotspots, allowing NIE to plan investment intervention in a timely manner. In assessing reinforcement options, NIE utilises cost-benefit analysis techniques to identify the optimum solution. We know that as the “least cost technically acceptable” solution. Consequently, investment is carefully targeted to cater for the underlying load growth across the network. However, applications for individual point load increases — for example, a new factory or a new production line at an existing plant — may result in local capacity issues. Those are likely to be exacerbated for customers located in more rural areas.
432. In many cases, investment to cater for the underlying growth creates some additional headroom, which can be taken up by individual customers. How that comes about is that, when NIE replaces assets, standard ratings of assets may be in excess of the reinforcement requirement, thereby creating a level of headroom. We can also create headroom because, whenever we invest for growth, we build a number of years of growth into the life scheme of the project and that creates a certain level of headroom. Where the increase in an individual customer’s capacity cannot be accommodated, the full cost of the least cost technically acceptable solution for reinforcement is passed on to the customer. That is in line with NIE’s statement of charges for connection to the network, which is approved by the Utility Regulator.
433. To consider developing a network with available spare capacity to facilitate the connection of point loads, regardless of location and without the potential delay involved in reinforcement, would require substantial additional network investment. Even if the level of network investment was available, the issue is that such point load increases and their locations are unpredictable. The question for me as a network designer is where we would develop the capacity

- and how much spare capacity I should design for.
434. Creating such a network may seem desirable, but it would require substantial additional investment across the Province in anticipation of possible future load applications. That would create the potential for stranded investment. By that we mean where we invest in areas of the Province to create infrastructure and capacity but that capacity is never taken up. That is what we term as a stranded investment. That would place an unnecessary increase in overall tariffs to the general body of customers.
435. Some level of anticipatory investment is undertaken. NIE works closely with the likes of Invest NI in creating electrical capacity at designated commercial and industrial parks across the Province. In those cases, Invest NI approaches all utilities that provide the infrastructure for service sites. That is funded by Invest NI, through government, and industry is then directed to those specific areas. It still creates the potential for stranded investment if the site does not mature or industry is not attracted to those specific areas. That type of approach works well. It could be extended through higher levels of investment, for example, with the creation of power parks or more enterprise zones in selected areas. Depending on the desired capacity, that would also require input from the transmission System Operator for Northern Ireland (SONI).
436. That type of anticipatory investment could assist with economic development but add a significant additional cost. If not funded by the general customer base through tariffs, it would need to be funded by some other means. That is a central policy question that would have to be considered by DETI, UR and other stakeholders. NIE suggests that a useful initial step would be to convene a working group at which illustrative solutions and scenarios and their costs could be explored. We believe that such a group would be best served if chaired by DETI. NIE would be fully supportive of that initiative.
437. I now hand over to my colleague Michael Atkinson, who will talk about generation connection.
438. **Mr Michael Atkinson (Northern Ireland Electricity):** Good morning, everyone. I am struggling slightly with a bit of a cough, so I hope that I do not move into a convulsion here. I spoke to the Committee last year. Hopefully this gives you something of an update on where we are at the minute.
439. Generally speaking, we have made very solid progress in terms of the overall connections of renewables in Northern Ireland. In fact, NIE has connected more generation per customer versus any other network operator on the mainland. We are actually achieving 20% consumption from renewables now versus the 40% target. The target itself requires around 1,600 megawatts of renewables to be connected. At this point, over 1,260 megawatts have been connected. The other applications that are already processing through the system would bring us beyond the 1,600 megawatt figure that is required for 40%.
440. The briefing document that we have issued was designed to give a bit of perspective on a topic that can be complex and full of acronyms. At a high level, organised plans are in place for what we describe as large-scale generation — the large wind farms. Developing the transmission backbone network in what we call cluster nodes allows more efficient connection of renewables. That is going well. The work that is under way to enable us to move from 20%, where we are at the minute, up to 27% of transmission capacity is moving well. It is advancing to plan towards the end of 2016. There has also been a good roll-out of what we describe as cluster substations. These are substantive high-voltage nodes on the network to allow the large wind farms to connect. However, at a strategic level, moving beyond 27% does require much more sizeable investment

- in the transmission network. That is an important point to be wary of.
441. In the focus on large-scale generation, really what we are pursuing now is the construction work on what we describe as the medium-term plan and the roll-out of clusters with a particular sensitivity to making progress there before the end of 2016, which aligns with the current timetable for the existing incentive regimes. The small-scale generation is more problematic. We have talked about that at some length in this forum previously. As you have been aware, significant issues have arisen on the distribution network. It is now largely saturated across many parts of Northern Ireland. That is visible in the heat map, which we update regularly now.
442. We established a Project 40 group, in the middle of last year, to address matters that are associated with both large- and small-scale generation. A particular focus of that has been on the small-scale side. That group comprises stakeholders from the Utility Regulator; DETI; SONI; the Northern Ireland Renewables Industry Group (NIRIG), the industry participants; the Ulster Farmers' Union; and a number of developers. That group and work has focused on expediting the roll-out of clusters, alternative connection agreement arrangements for small-scale generators and also establishing consistent rules and protocols in a very busy environment.
443. We are at a critical stage now in that we have invested in work at some 40 substations to release headroom. That has allowed another 100 or so projects to proceed and released some 30 megawatts into the system. We submitted further proposals to the Utility Regulator for work at an additional 28 substations, which would release another 30 megawatts or so. Alongside that proposal, there is a proposal in for some additional pilot work to test the feasibility or workability for what we describe as a managed connection, which is a different way of connecting some of the parties who, at present, we are unable to provide connection offers to. If that funding and pilot are successful, it would enable us to roll out managed connections from the early part of next year.
444. There is a health warning of sorts around this in that managed connections may not provide a solution for everybody. We have several hundred applicants who are sitting in that category at the minute, who we are unable to connect because of capacity issues. It is unlikely that we will be able to find a solution for everybody that works within the timetable of the current incentive regime. There will be disappointments out there. We are very conscious of that in our day-to-day interactions with developers. The focus on small-scale generation — and our recommendation — is then largely to use the Project 40 grouping and the close working relationships that we have now established with stakeholders over the coming months to test the potential for the managed connections and also our efforts to secure funding on further, more conventional investments that would release some remaining headroom on the network. We are essentially squeezing out a sponge that is becoming ever more dry. There is probably a limit to just how much of the small-scale generation can be connected. In parallel with the work that we are doing, SONI, which is the system operator, is looking at just how that quantum of small-scale generation actually impacts on the higher-level parts of the network and indeed leads to impacts on large-scale generators and the amount of curtailment, for example, that they experience.
445. That is broadly where we are on the generation connections side.
446. **The Chairperson (Mr McGlone):** OK. Thanks very much. You will appreciate that the problem has been about for a good while, Mr Bailie. It inevitably comes up repeatedly through and with this Committee. When I hear of the idea of a working group being set up, it is kind of a wee bit like, “Is this another analysis group to analyse what is a very stark issue?”. It should not really

take a working group to work its way through this at this late stage in the game. People are anticipating that the solutions are probably staring you right in the face. Things are coming to the likes of me. I would have to say thanks to some of your staff for meeting out on site and places like that to try to work through some of the detail of these things, but those delays are basically holding up connection to the grid and delaying economic development. That economic development could be of the nature where people are trying to get onto the grid with a small turbine or something like that, or it could be, as has been the case, a significant economic project such as that at Dunman and how the grid is so weak west of the Bann that it is not able to provide the capacity. You will say that, yes, there is capacity there, but it will come at a price. For any business that is close to a district town, we would anticipate that the grid would be of the capacity to be able to absorb economic development. In the context of where we are today with our inquiry, we say that there are issues, such as the roads network, communications, broadband and all of those, but an integral part of that infrastructure is obviously the grid. I was listening carefully to what you were saying about identifying where the pressure points will be. I sat one day over at Aldergrove. *[Interruption.]* Sorry, is that a Division? Is the House inquorate? Can we check that? I do not think that there should be any votes.

447. **Mr Frew:** There will be a vote on the amendment.
448. **The Chairperson (Mr McGlone):** I will just continue my point. I sat with the air traffic control people at Aldergrove. The man in charge showed me the map. Straight off, it was very apparent to me where the hotspots were. Do you work or sit down with them? All you have to do is look at the dots right across the map and you can see where the major issues of concern are. *[Interruption.]* I may well have to just drop proceedings here if that is a vote. We may all have to scarper out of the room. If I cut you

short, it is not because I am being intemperate or anything; it is just that we have to go to vote.

449. **Mr Flanagan:** You will have plenty of time to think of an answer.
450. **Mr Bailie:** You have made a number of points there and one specific one on a customer application.
451. **The Chairperson (Mr McGlone):** Sorry about this: it is a vote. We just have to drop everything in these circumstances. We will be back in about 10 minutes.

*Committee suspended for a Division in the House.*

*On resuming —*

452. **The Chairperson (Mr McGlone):** Apologies for that, gentlemen. The vote is done and dusted now.
453. Where were we? I think you were speaking, Mr Bailie.
454. **Mr Bailie:** Yes, you covered a number of points. You talked about air traffic control having maps showing all the planning applications across the Province. We do something similar. We are informed of all planning applications, and we look at how they will impact the network. We also have separate maps, which we refer to as “heat maps”. Those are on our website. For the likes of anybody who is looking to connect a generator, those maps show areas of the network that are fairly well saturated and where there could be higher costs or potential delays in connection. They also show substations that need reinforcement to allow them to operate in reverse power. If you imagine a distribution network that was always designed for the power to flow from the main power station down to the house, offloading on the way through transformers, you would find that some of those transformers are being asked to operate in reverse, that is, there is more generation on lower networks. The transformers were never designed to operate in reverse. We need some investment in some of those older

- transformers to allow that to happen. That is the restriction on them.
455. **The Chairperson (Mr McGlone):** My point is that it is a wee bit like having a shop or a business, in that if you know where the areas of high demand are, how do you integrate that into your investment package? Representing an area west of the Bann, clearly the big issue for me has been the pressures from the turbines and how those have affected the area. How does that inform and strategically influence your investment?
456. **Mr Bailie:** There are two areas. One is the reinforcement for generation. I will maybe let Michael chat about that in a few minutes. You referred to one customer in the Cookstown area who had an application with us. If we are looking at reinforcing the network for load connections, as I mentioned in my initial presentation, we in NIE, like all electricity companies, try our best to look at historical demands at specific sites, extrapolate that information and look at other environmental impacts to try to forecast as accurately as possible. Obviously, accuracy with forecasting is hit and miss, but we try to get some indication of the level of demand at each site and at when that will breach the sites' capacity. We then target our investment in those areas to ensure that the capacity is there.
457. We know that a certain level of capacity is available, and doing the reinforcement creates more headroom. For example, if we require 8MVA of capacity at a site, a standard transformer has 10MVA, which means that 2MVA of capacity is available that any customer can avail themselves of for free without having to pay the deeper reinforcement costs. In the notes that we provided, we identified a number of customers, particularly around the Cookstown/Tyrone area — we not at liberty to divulge their names — at a number of sites who have availed themselves of available headroom and got upgrades to their connection free of charge or who have just had to pay the local connection charge to the network, rather than the cost of deep reinforcement. So, customers can avail themselves of that.
458. Our growth and extrapolating forward looks at what we see as reasonable low growth on those sites. We take account of Department of the Environment area plans, which detail areas of development, such as brownfield sites to be developed or new greenfield sites that have been zoned for development. We take those into account and look at the volume of connection applications coming in from different areas to our business. We talk to Invest NI and other bodies that are involved in developing new customers, such as the Belfast Harbour Commissioners, to try to anticipate where the growth will be and to build that into our forecast model.
459. That forecast model will allow, as I said a minute ago, for applications coming in for new loads that would be deemed reasonable and that would be within that headroom. However, addressing the case you cited, an 8MVA demand on a rural network is well beyond the available capacity at that point in the network. Therefore, we have to look at the reinforcement required to provide that capacity to that customer. It then comes down to cost. We design the lowest-cost solution to provide that customer with the capacity he needs. Under our charging guidelines, those customers are fully liable for 100% of the cost. If that cost is not passed to the customer, who pays for it? That is our concern.
460. We can go back further and say that that is one customer coming into Cookstown. Why do we not have that capacity available to him? As I said when I went through my introduction, if we made 8MVA available in the Cookstown area for any customer that comes along and we then had to make it available in Omagh, Limavady, Strabane, Ballymena and Newry, as I mentioned, that happening at every node would create a substantial additional investment across the network. How much capacity do I design for Omagh, Strabane and Limavady? Do I design for 8MVA, but



- then a customer comes in and asks for 9MVA?
461. Given the unpredictable nature of a customer's application form, it is very difficult for us to determine what capacity should be available at every site. We use our knowledge of historical growth rates to try to predict the load at certain sites, and we target our investment at those sites. We cannot predict customers coming in out of the blue and saying, "I have a development opportunity, and I want a connection."
462. The other issue with that particular customer was not only the cost but the delay in connection to the site. I think that we quoted him up to two years for delivery. That was the outside; it was up to two years. We do that because that particular connection required about 24 kilometres of overhead line from the Toome direction down to the customer's site. That line has to go through third-party property, and we have to get legalities sorted out and the agreements with customers. It has to go through planning, and we have to get the agreement of customers. We are aware that there has been opposition in the past to us putting lines in that area. We were advising the customer that that was the potential but that we could run into difficulties that are outside NIE's control with opposition to the lines going up. We would then be in the position of deciding whether to work with the landowner to try to push through to get agreement, whether to look for alternative routes, which lengthen the circuit and add cost, or whether to go to cable, which significantly adds cost for those sections. We would have those debates with the customer if we ran into those sorts of difficulties.
463. **Mr Tarrant:** Can I just follow up on one question that you asked about a working group, just to give a bit of background on why we are making that recommendation? Building on what Ian said about potentially over-investing in the network and having stranded assets across the Province, that echoes the point about clusters that was made in the previous session with the Chamber of Commerce. That is essentially our recommendation. It is to have targeted areas in Northern Ireland where there would potentially be increased capacity to allow businesses to connect. It is to not over-invest by having the entire area of Northern Ireland with additional capacity. That is not a decision that NIE can make on its own; it would have to be done in consultation with other stakeholders. We cannot decide whether the extra capacity should be put into Cookstown, Limavady or whatever area. I think that quite a quick piece of work could be done to identify where that is, but it depends on other stakeholders. That is just the background to that recommendation.
464. **The Chairperson (Mr McGlone):** Is your solution to it that we adopt a clustering approach to economic development?
465. **Mr Tarrant:** We are putting that forward as an idea for consideration. A policy decision really needs to be made about how economic investment should be made right across Northern Ireland. That idea could be cost-effective from the point of view of reducing the risk of having stranded infrastructure. However, it does not give a guarantee, because businesses have to come in afterwards and actually use that capacity. It kind of builds on the relationship that we had in the past with Invest NI, for example, where it would have come in, as Ian mentioned, to get connections for power parks. So, we think that the Committee could consider that type of idea.
466. **The Chairperson (Mr McGlone):** Michael, on the issue of overall planning, you —
467. **Mr Atkinson:** You talked about generation as well. Without trying to make it any more confusing, the point is to highlight that the generation situation is very different compared with that for a customer coming in and trying to set up a normal load connection, where they are essentially sucking energy out of the network. With a generation connection, we are effectively pushing energy back in the opposite direction. When you consider the heat map, which you have

probably seen before, you know that it identifies pressure points in red dots, showing where we have problems. That is because the network is not receptive to reverse flows in those locations. In fact, if more load was connecting in those areas, it would increase the potential for generation to connect, because the energy could be used up locally. The problem with generation is that we are trying to push energy back up through the primary substations on to the higher level parts of the network. It eventually finds its way back to Belfast, where most of the load is. It is a different phenomenon to the one that Ian is describing about customers coming in and trying to establish load connections on the network.

468. **The Chairperson (Mr McGlone):** Thank you for that. I call upon the Deputy Chairperson to take over —
469. **Mr Flanagan:** Yes.
470. **The Chairperson (Mr McGlone):** — but I will first call Mr Dunne.
471. **Mr Dunne:** Thank you very much for your presentation, gentlemen. We are glad to see you again. Microgrids are something that we have heard mention of in various presentations. Have you looked at the full potential of their full development? As I understand it, there are opportunities to generate and use electricity locally. Do you see the potential in that?
- (The Deputy Chairperson [Mr Flanagan] in the Chair)*
472. **Mr Atkinson:** There was certainly discussion about that over the last year or so, and we know that the Ulster Farmers' Union, for example, was quite keen to promote the idea of microgrids. In our experience, microgrids being put into place in an effective way has been quite limited. Part of the outcome of that process with ETI was that we worked with it and the Utility Regulator to look more closely at microgrids and at what solutions they might bring forward. Our understanding was that the likelihood was that, in the immediate term, that activity would probably move further

back into the next regulatory review period. The microgrids represent a level of automation of the system and the local management of energy. The extent to which we have got so far is to look at the specific situations we have with small-scale generation and at trying to find a more automated way to connect small-scale generators into the network. We are not currently exploring microgrids —

473. **Mr Dunne:** You are not?
474. **Mr Atkinson:** — in any substantive way, nor do we have funding to do so.
475. **Mr Dunne:** What is their long-term potential? Do you reckon that they will stack up and be useful? We have certainly had strong advocates for them in here; you are probably aware of who they are. I am not an expert, but my understanding is that, if you can generate and use locally, why would you not do that, rather than have to move around?
476. **Mr Bailie:** We have interest from a number of parties, and one in particular towards the north coast is looking at setting up its own microgrid. It is taking its supply from NIE and is developing its own infrastructure, where it has load and generation. The issue with microgrids is that you have to have that continual balance between the load and the generation, otherwise you will have voltage distortions on the system. They have to be totally balanced.
477. At the moment, the way that NIE is contracted means that each application comes to us for a direct connection on to our circuit. It is either a generation or a load that wants to be connected. That guy wanting his load connected wants a 24-hour supply and quality of supply. That is what we are obligated to give him under our licence agreement for the connection. Generator connection is a firm connection, and he wants the same. So, we have a contract with each of them. We do not have a mechanism under our licence at present to tie the two together and to allow the generator to generate only when the load is on.

- The benefit of the guys who are looking at the private network, where they would take a supply from NIE and develop their own infrastructure, is that they can manage that because they have taken a contractual connection from NIE at a certain point and can plan and manage the balance between the load and the generation internally.
478. **Mr Tarrant:** May I briefly add to that point? Over the next decade, we will see features like increasing automation on the grid, so there will be more control of load flow. That will be a feature that ties in with microgrids a little bit. I think that we will also see more energy storage and electricity storage. That will also support the general direction towards more smart grids. We certainly would like to see more automation on the network as a general point, because it helps customer service and means, for example, that faults can be restored more quickly.
479. If you take the overall picture in Northern Ireland, you see that, in general, a lot of the wind generation is in the west of the Province and that the load demand is in the east. So, the idea of more localised microgrids is challenging in that respect, because that local balance between generation and the load demands needs to be present for those microgrids. I think that we are going to see more of that over the coming decade.
480. **Mr Dunne:** I have one other point to make, Chair. I have been working with NIE on a number of issues. As I understand it, customers have to pay up front, in full before NIE commences work. Is that the case for all customers? There seems to have been a policy decision that customers have to pay up front, in full before work is commenced.
481. **Mr Atkinson:** On the generation connection side, we are in the main talking about small-scale generation connections. The applicant will initially pay an application fee to go through the process of getting an offer and assessment. At the point that he accepts his offer, he will pay only 20% of the total cost of the connection. That is almost at that first stage, where he has been issued his offer and accepts it. Once the pre-construction work, as we call it, which is about getting the consents and the legalities sorted out, is completed and we are approaching the final construction stage, which normally takes eight or 10 weeks, we go to the customer and ask for the final 80% of the balance. Certainly, with the generation connection, they are not paying —
482. **Mr Dunne:** Yes, for generation, but there seems to be a demand now for upfront payment for general work, such as running in new supplies to businesses and so on.
483. **Mr Bailie:** As Michael said, our charging statement requires that, when we quote on acceptance of terms, either a percentage will be required, or if it is major infrastructure for which we will want to forward purchase transformers or whatever, part of the deposit will be required to allow us to buy that large infrastructure. We will then pursue planning requests and landowner agreements to allow the infrastructure to go ahead. Prior to construction, we request full payment for all works.
484. **Mr Dunne:** Yes, full payment.
485. **Mr Atkinson:** I suppose the principle that NIE adopts is that it will try to remain cash positive through the process. In the initial stages, a deposit of 20% is required in the case of generation connection. That will allow the pre-construction activity of surveys and way leaves to go out so that that work can get done. When we commit to the final construction, we are booking hard pieces of plant and expensive equipment etc, and it is appropriate to ask for the final balance at that point. That is usually a relatively short time before the connection is delivered on the ground. So, there is a phased approach to it.
486. **Mr Dunne:** Thanks, Chair.
487. **Mr Humphrey:** Thank you very much for your presentation. What progress has NIE made on the development of a

- communication strategy for developers in which it commits to customer communication and engagement about the grid connection?
488. **Mr Atkinson:** Are you thinking generally about the grid connection?
489. **Mr Humphrey:** Yes.
490. **Mr Bailie:** As part of our RP6 planning, which is due to commence in October 2017, we in NIE are engaging in a stakeholder engagement process to discuss with all stakeholders what they feel their requirements are or what they would like the network to provide the customer with. We are doing that so that when we go in with our submission, we will be doing so against the backdrop of knowing what the customer wants from the network. Do they want security? Do they want safety? Do they want reliability? What level of service do they want from it? We are going through the formal process of a stakeholder engagement with all parties that have an interest, in the hope that that will develop our understanding of what the customer needs and will develop our proposed investment for the RP6 period.
491. **Mr Humphrey:** What percentage of Northern Ireland business is connected to the grid?
492. **Mr Atkinson:** The vast majority.
493. **Mr Bailie:** When you say “the grid”, are you talking about the transmission system or the distribution system?
494. **Mr Humphrey:** The distribution system.
495. **Mr Bailie:** Do you mean the number of commercial customers?
496. **Mr Humphrey:** Yes.
497. **Mr Bailie:** There are 840 customers in total.
498. **Mr Peter Ewing (Northern Ireland Electricity):** There are 60,000 business and commercial customers.
499. **Mr Humphrey:** What percentage is that?
500. **Mr Ewing:** About 850,000 customers in total are connected to the grid.
501. **Mr Humphrey:** Right.
502. **Mr Tarrant:** Basically, every business customer who has a connection to the grid and an electricity supply is an NIE customer. That total of 60,000 is effectively all the businesses that are connected to the electricity network.
503. **Mr Atkinson:** Once a customer gets into a general connection, they will be assigned a planner who will maintain a relationship with them until the job is connected. With conventional load-related connections, that process normally works quite well. When it comes to generation connections, which have become more problematic for us recently, the work that we did on that on communication has had to be more widespread.
504. We have engaged with a number of interested forums and certain groups to promote and present the situation with connections. We are also putting more information on the website; for example, the heat map. We have a network mapping tool that developers can use to self-assess whether they are likely to be able to proceed with a connection. Considerable effort is now being made on communicating generally with the generation connection-related part of the jigsaw.
505. **Mr Humphrey:** I understand that, at the moment, about 20% of generation is from renewable sources. Is that right?
506. **Mr Atkinson:** Yes, 20% of consumption of energy comes from renewable sources.
507. **Mr Humphrey:** What is the target?
508. **Mr Atkinson:** The Government have an official target of 40% from renewables by 2020. There will be very important ongoing discussion about the level of certainty over that target over the short term. However, the plans that we have in place will certainly allow us to get to around 27% by the end of 2016. Beyond that, there is more uncertainty about whether some of the very large investments that are required would be

- made to allow us to move towards the higher target.
509. **Mr Tarrant:** That ties in with the recent consultation that DETI issued on the target and plans for renewables in the coming years.
510. **Mr Humphrey:** Do you hope to uplift that to 27% by the end of 2016?
511. **Mr Atkinson:** That is the plan. That date is also important, because as things stand, the incentive regimes that are in place for large- and small-scale developers have a level of certainty until March 2017. However, there is uncertainty about what will happen beyond that.
512. **Mr Humphrey:** If you do not mind, I will finish with another question. If that incentivisation were to be removed, what impact would that have?
513. **Mr Atkinson:** To me, the incentives are the sole reason why much of this is happening. If the incentives were to disappear and the renewable sector rewarded at only the same rate for energy as any other source of conventional energy, it would have a dramatic impact on generation take-up.
514. **The Deputy Chairperson (Mr Flanagan):** Do you have the percentage of electricity that is generated from renewables, as opposed to consumed?
515. **Mr Atkinson:** The figures will be not totally dissimilar. SONI, the network operator, maintains a record of what it calls the energy that is sent out from various generation sources. It makes certain assumptions about how much energy is lost as it finds its way through the network. There are inherent losses in the network anyway. It then estimates how much end users consume from that generation. It is a similar calculation.
516. **The Deputy Chairperson (Mr Flanagan):** Therefore, there is no big difference between the amount that is generated and the amount used to meet the needs of consumers.
517. **Mr Atkinson:** There will always be a natural level of losses in an electricity network. The amount that is sent out will always be a bit higher than what is consumed. The difference between the two is roughly 6% or 7%.
518. **Mr Frew:** This is a massive problem, in which NIE plays a part. I understand that it is not all in your own destiny and that there are a lot of players involved, but you do play a part in the problem. To a degree, you are the problem. Everybody, including NIE, says that investment is needed to connect people to the grid. Why are you not investing more, as per the price control from the Competition Commission?
519. **Mr Ballie:** Are you referring to connection of generation or connection of demand?
520. **Mr Frew:** By investing in the grid.
521. **Mr Atkinson:** Without trying to make it more complicated, Paul, the investments required to support generation are of a very different type. Essentially, to support generation, there is a reverse-engineering of the network. The network needs to be strengthened in a way that is very different from what happens for conventional load-related generation. The work that we had done as part of the last price review to try to get more moneys made available was partly successful, in that we got a certain level of funding released, to support small-scale generation in particular.
522. As I said in my introduction, that released 100 or so projects, but, unfortunately, the Competition Commission concluded that further investment in the area to support small-scale generation was not in the public interest. That is clearly documented, so we are battling against that position, and, in parallel, we are putting forward further proposals to the Utility Regulator that will potentially release significant further volumes of projects. There is, however, an issue around funding, as well as purely around the logistics of developing a network. It is not just about money; it is about the logistics of trying to strengthen a distribution network, the timelines involved, the way leaves

- involved and the securing of consents to do it. Even if you had an infinite amount of money, that would be a significant issue.
523. **Mr Frew:** I am a realist, so I realise that you do not want to send a distribution network to every nook and cranny of Northern Ireland. I completely appreciate that there has to be a strategic investment outlook in all of this.
524. I will come back to the statement by the Competition Commission after this question. From April 2012 until April 2013, you were given £58 million by the Competition Commission. From April 2013 to April 2014, you were given £67 million. That is out of a grand total of capital expenditure allowance of £458 million. How much of the £58 million and the £67 million have you spent?
525. **Mr Tarrant:** There are a couple of things behind that question. The first thing to say is that the Competition Commission did not reach its conclusions until this time last year, about two years into the price control period. The policy that was adopted — it was a prudent policy by NIE — was to keep the run rate for investment similar to the RP4 run rate. We could not overcommit investment in the first two years with there being regulatory uncertainty over how much money we were going to get from the Competition Commission.
526. Over the past year, since we have had clarity from the Competition Commission, we have been out to tender for this big ramp-up of work that we are going to have for the balance of the period up to September 2017. In the document that we submitted, we talked about the amount of money that we would be spending on replacing transmission and distribution assets. A total of £217 million will be spent, and that is in 2009-2010 money. We plan to deliver all the outputs that were defined in the Competition Commission's final determination during the price review. Where we have come from through the Competition Commission process is that that investment will be made towards the back end of the period of the price review. We fully expect to complete the investment that is defined in the Competition Commission documents during the price review. It is just the nature of it that it will be back-ended.
527. **Mr Frew:** The £58 million that was allowed for 2012-13 can be rolled over.
528. **Mr Ewing:** It can, yes. It is just the timing. There was a bit of an underspend in the first three years, but there will be an overspend in the last two and a half years.
529. **Mr Tarrant:** I will make one final point related to that. It is important to say that 90% of that work is asset replacement work, because of the age of the network. To go back to the point that Ian made, something in the region of £23 million will be spent during this price control period on load growth-related work on the distribution network. It is a smaller part of this. As I said, this work is asset replacement work, because of the age of the network.
530. **Mr Frew:** Can you give the Committee a commitment that the £458 million capital expenditure allowed in the Competition Commission's statement will be spent and invested in the grid?
531. **Mr Ewing:** The intention is to deliver all the outputs in the RP5 period. For the first two years, we are overspent versus our allowance by approximately £7 million. We expect that to balance out over the five-year period.
532. **Mr Tarrant:** It is also important to say that the nature of regulation is that there is an incentive for us to try to do that work as efficiently as possible: to spend less of the money and still deliver the outputs, and to ensure that that money is shared back with customers effectively. There could be an underspend on that, but the work could still be delivered. Our commitment is to deliver the work programme, and that is what is defined in the Competition Commission's statement.
533. **Mr Frew:** That would most certainly be in your interest, because it is my understanding that you get to keep 50%

- of any underspend out of that £458 million. Is that correct?
534. **Mr Tarrant:** There is a sharing of the benefit with customers, and that is the nature of any regulated contract. As Peter said, we are overspent in the first two years not underspent, so our commitment is around delivering the work programme for the network.
535. **Mr Frew:** It would not be in your best interests to underspend.
536. **Mr Tarrant:** It is in our interest to deliver the work programme as effectively as possible. If we can do that and potentially save money, that is of course what we will try to do. Ultimately, our objective is to deliver the work programme that is defined in our regulatory contract.
537. **Mr Frew:** In a statement issued by NIE on 15 August 2014, you stated that you had to withdraw conditional connection offers. You also stated that the Competition Commission:
- “decided that levying further costs of 33kV investment on the general consumer base to support small scale renewables was not in the public interest.”*
538. That is a misrepresentation of the Competition Commission.
539. **Mr Atkinson:** I do not believe that it is. I am not sure why you would conclude that.
540. **Mr Frew:** In paragraphs 10.303 and 10.319 of its report, the Competition Commission stated that it was not in the public interest to increase NIE’s allowance of £30 million for that work because NIE had not justified the cost. It did not state —
541. **Mr Atkinson:** I am reading it, and it does not say that. It does not refer to £30 million.
542. **Mr Frew:** It did not state that the investment in the 33kV network should not happen. It should happen, and NIE should strategically invest in the 33kV grid to allow people and businesses to connect.
543. **Mr Atkinson:** The only allowance that was made for 33kV investments to support renewables was the £2.3 million. It was not £30 million.
544. **Mr Frew:** Are you saying that, because the Competition Commission did not give NIE additional investment or moneys to invest in the 33kV network, the 33kV network will not be invested in?
545. **Mr Atkinson:** The 33kV network will continue to be invested in, as is required, to support the development of load-related work.
546. **Mr Frew:** Who takes that burden?
547. **Mr Atkinson:** That is part of the —
548. **Mr Bailie:** That forms the basis of the projects that were identified at the start of RP5. We would see through the period that requires investment to meet our licence and statutory obligations to ensure security of supply and quality of supply. On the back of our doing work in certain areas to enhance the capacity of the 33kV network, that obviously has a knock-on effect, in that it increases the capacity of the 33kV network generation in the same area.
549. **Mr Frew:** With which you cannot then burden the consumer.
550. **Mr Bailie:** We are not. The driver for it is the load-related investment, which is allowed for in the regulatory allowance. The knock-on effect is that it meets your load development, but, in the same area, it may well release capacity for generators. It is not funding specifically to create capacity for small-scale generation; it is funding to create capacity for the increased load, which also benefits the secondary.
551. **Mr Frew:** If you can give a quote and time-bind it — I know that you do the heat map, which is basically a map with increasingly red splotches and circles — why can you not produce a grid or a chart or even release information per substation, when requested? You have 230 primary substations on the distribution network. Why can that not

- be produced or released and time-bound? I know that there is an issue. You said at first that it was commercially sensitive. It may be just the fact that it is time-sensitive. Why can you not put a disclaimer on that information and release it to businesses?
552. **Mr Atkinson:** It is not commercially sensitive from our point of view. It is about the number of applicants who are waiting in the queue to get a connection. We have an obligation to look at the data protection issues surrounding those applicants. For example, when we look at capacity at a substation, if we were simply to tell you now how much capacity there is today at that substation, that would be totally misleading when it comes to whether it is going to help you to get a connection. There could be a number of people in a queue waiting to get offered a connection who have right of access in advance of you. Unless you were given a full picture that released information about people who perhaps do not even have offers — people who are at the application stage awaiting an offer — the information would not be in the least bit helpful to you. That is apart from the fact that our distribution codes, which are approved by the regulator, do not allow us to release information on preliminary planning data. Effectively, that is about people who are in the application process but have not yet agreed to a connection. There are a couple of factors that make it impossible at the minute for us to release that information.
553. As the work that we are doing with managed connections continues, and we do try to look at what is happening in GB, we certainly feel that we will try to release more helpful information over the coming months as best we can, but without running in the face of some of the obligations in the distribution code, for example. Although you are saying that the heat map has red dots and splodges, it is proving to be helpful, to some extent, to the applicants at the minute. By using what we call a network-mapping tool, an applicant can, using his postcode, get a reasonably good idea of where he fits into the system. If he has a wee bit of design knowledge, he can get a good idea of whether he is close to a busy-looking primary substation or whether there is still a bit of room left in it.
554. **Mr Frew:** That will help only if he applies for a generator. That is not very helpful when you are looking to grow the economy and hoping to entice business through lower rates of corporation tax. We have an area east of Ballymena that is served by a substation that consumers have been told that they cannot connect themselves to through new means of generation. Their bills are very expensive, so they need to generate their own electricity to keep their overheads down, yet they are being denied a connection by NIE.
555. **Mr Atkinson:** I will not say specifically whether that substation is included. Having had some significant success with the work that was agreed with the regulator, which was for 40 primary substations, we have now identified another 28 substations that are reaching that level of congestion. The amounts of money involved in releasing capacity at those primary substations are of lower order. They are similar to the amounts of money that were previously approved. We are working hard now with the regulator to see whether we can get another step of allowance agreed in those areas to free up potentially another 25 MW or 30 MW of projects. It is not impossible that that will be addressed, and that would deal with the situation that you are referring to in the relatively short term, but we have still not concluded an agreement with the regulator.
556. In addition to that work, which is more what we call conventional investment to release firm headroom on the network, we have done a lot of work to consider an alternative form of connection, where the party is prepared to accept some form of output reduction at times of peak stress. That is going to take a few months to bottom out, but that is a potential solution as well.



557. **Mr Frew:** I understand the concept of headroom capacity and of generators pushing electricity back up the grid instead of sucking it out. If you have a problem in any given substation, whereby you cannot allow more generation, what does that look like for sucking electricity out of that substation? What happens if —
558. **Mr Atkinson:** It could be absolutely fine. You could still utilise the same transformers at the substation to pull more energy out. What typically happened historically is that the transformers at those substations were not set up to deal with the flow going in the opposite direction. We found that in areas with relatively low-order investment, changing some of the control gear at the transformers allowed them to absorb some of that energy.
559. **Mr Frew:** The heat map will allow only established businesses to find out whether they can generate electricity. It will not help new businesses coming in to build, say, a large plant or a manufacturing plant.
560. **Mr Atkinson:** To be honest, the heat map is really trying to deal exclusively with the issues associated with generation coming onto the network. I have to make that clear. If we are creating confusion there, we need to be careful. It is not designed as a —
561. **Mr Frew:** What tool can a new company from, say, America or France use if it decides to set up base east of Ballymena, where it considers there to be a problem for generation? How can you entice that company? How can I, as a representative for that area, entice a company to come to the area if there is a problem in a substation?
562. **Mr Atkinson:** The demand side is perhaps better. Ian?
563. **Mr Bailie:** If it were purely a demand customer, we would treat that differently. There are a number of ways in which it could be dealt with.
564. If it is new investment, it is generally Invest NI that is involved in attracting that. As I mentioned before, we work closely with Invest NI to develop business parks where capacity is created. Invest NI would ask us to create a substation or a network to that site and develop the network around the site so that any investment would just come in, get the site and pay for the local connection on to the cable running on the street. The infrastructure is already built for them.
565. We create capacity based on the acreage, building in about 100kW per acre. Invest NI comes to us and identifies a site, and we build the infrastructure for that level of capacity. Invest NI attracts the business and knows that, on that site, it will be able to connect a particular customer.
566. **Mr Frew:** Who pays for that investment?
567. **Mr Bailie:** Invest NI.
568. **Mr Frew:** Therefore, what burden is on NIE to invest?
569. **Mr Bailie:** There is no burden on NIE to invest there, because we would not have seen that. There is no substation or infrastructure there to predict the growth rate, because we do not see any growth there. That is for a one-off load coming in to attract investment. NIE, as I said, will invest for underlying growth rate, but we cannot predict where new customers are going to come in. What we can do is work with Invest NI to develop the infrastructure and create the capacity at designated sites to allow it to attract investment.
570. **Mr Frew:** If you have an existing problem with a substation and you are talking about one of the most highly populated manufacturing areas in the Province, surely you would have invested beforehand or would invest immediately, if you considered there to be a problem.
571. **Mr Bailie:** We review the load and capacity on substations annually. We then look at the utilisation of those sites and try to forecast that forward. Sites that are coming close to their headroom or maximum capacity and showing a continual growth rate such that they

- will become overloaded, if it is a 5 MVA transformer, we will plan to upgrade that to the next level of transformer, which would be a 10 MVA transformer. If the load continues to grow, there will be capacity for that. If a customer comes in after we have put the larger transformer in and wants 2 MW or 3 MW of capacity, it will probably be available, but if a customer wants 9 MW or 10 MW of capacity, it will not be available. As I said earlier, we cannot invest in infrastructure with speculative investment into 15 kVA or 20 kVA capacities at every point in the Province, because the cost of that infrastructure would be prohibitive. It would be passed on to the customers, and you would end up with stranded investment in the majority of places across the Province. It is much better that, through the likes of Invest NI, that investment be targeted at areas to where the industry can be attracted through government — power parks, business parks or wherever — and the capacity be created there.
572. For existing customers who are connected to the network but are not involved in those power parks, if they want to grow, they make an application to NIE. We can look at the load on the transformer or supply feeding them. We will know whether there are other customers with applications in in that area, so we know where existing customers sit in the queue, what is available to them and whether we can meet demand, or whether, through discussion, we can say that if they can reduce their demand, we can connect. We work with them on that on an individual basis. They can either get in within the headroom that is there or, if it is a substantial increase that is being asked for — as with the like of the Dunman project, which is really well outside any reasonable level of headroom — a decision is required on who pays for the work that needs to be done.
573. **Mr Frew:** OK. I think that I will leave it there.
574. **The Deputy Chairperson (Mr Flanagan):** Paul, you are looking in, but we are in danger of losing a quorum here. Are you in a panic, or are you happy enough?
575. **Mr Givan:** No, I will not let the meeting go inquorate.
576. **The Deputy Chairperson (Mr Flanagan):** Do you have questions, or are you happy enough?
577. **Mr Givan:** I have questions, yes.
578. **The Deputy Chairperson (Mr Flanagan):** Go ahead.
579. **Mr Givan:** Great. Thank you Chair.
580. **The Deputy Chairperson (Mr Flanagan):** Gordon is looking to get out too.
581. **Mr Givan:** I know. If the other parties were here —
582. **The Deputy Chairperson (Mr Flanagan):** There is strong representation here from the DUP, I will give it to you.
583. **Mr Givan:** They are all trying to fight elections.
584. **The Deputy Chairperson (Mr Flanagan):** I think that it is lunchtime.
585. **Mr Givan:** We are fighting elections, too, but we have to do our job when we are here as well.
586. Michael, you mentioned 20% at the start. There was a comparison made with GB, and I just want to nail down exactly what it was that you were comparing when you mentioned the 20% figure.
587. **Mr Atkinson:** The 20% figure is really a factual figure for the amount of energy being consumed that is generated from renewables in Northern Ireland. When I mentioned the comparison with GB, I said that if we compare ourselves to the amount of generation that is being connected by other network operators on the mainland — such as Western Power, Scottish Power and Electricity North West — and the number of customers in those territories, we are clearly ahead of the amount of generation per customer in those locations. Therefore, in relative terms, the amount that is being connected here

- through renewable sources is very high, particularly for small-scale generation, because there are relatively high incentives in Northern Ireland that are driving a lot of it, as you would naturally expect when there are strong incentives.
588. **Mr Givan:** OK. Thank you. On anaerobic digesters, one company that I am aware of has 10 sites and £30 million worth of investment on its part. NIE has delayed eight of those 10 projects. The company has been planning with your organisation for when it is going to come on stream, and, for eight out of 10 of them, NIE has said that it will not be able to have the work done on time.
589. What are the processes involved when you get engaged in those projects so that they come on stream according to the time frames in which companies plan to deliver? For those projects, you then have consequences further upstream in the supply chain. Farmers are involved in sowing out their land, and then they are told that NIE is not going to be able to take their product, and there are financial penalties for them. I am keen to tease out how you can ensure that the projects that you are delivering, which are at full cost recovery for the customer, are done on time, because eight out of 10 delays for that particular company does not, I suspect, seem like the type of service that you would be content with.
590. **Mr Atkinson:** If we look at the sequence of events briefly, we can see that the applicant goes through a process and gets an offer within 90 days. We have had various discussions about whether that period could be shorter or not. On balance, we think that getting the offer issued within 90 days is reasonable, and we will probably stick to that.
591. The real challenges emerge once the applicant decides that he is going ahead and has a significant project. We have more recently got to the point at which significant levels of reinforcement are required on the local network to be able to connect that party, so it means that, for us to process the consenting work to get the way leaves and address the legalities, we are having to deal with a multitude of landowners. That would not have been the case perhaps a couple of years ago when the network itself was at a less saturated level. That means, for example, if it is not just a matter of connecting the anaerobic digester plant to the immediate three-phase line, some work needs to be done between that connection point and the primary substation, which may be several kilometres away.
592. There is a lot of landowner involvement, and what is absolutely holding up these projects at the minute is the level of consenting that is required, the multitude of landowners and, unfortunately, in many cases, an increasing resistance from landowners to grant consents, particularly where there are parties who are affected and who are not getting a connection offer at all because they are snookered by the particular substation that they are going to. That consenting process can take a significant time. There is the planning permission itself involved, as well as the need to finalise all the legalities. That is taking longer than we would like. We absolutely agree with you there. There is a limit to what we can do, and what we are doing in particular is strengthening the way leaves, which is the resource that we use to gain the consents.
593. We will be introducing significant resource increases in that area. It does not bring an absolute guarantee that we will get the consents done any quicker, because, if landowners refuse completely, we get into compulsory way leaves and into a DETI process that may take 18 months or a couple of years to sort out a particular issue. There is a difficult tension to balance there. When it gets to the stage where the planning approval is in place and the consenting has been agreed, the construction stage of the project typically takes eight to 10 weeks maximum. It is the bit in the middle — what we call the pre-construction — that is proving very problematic. As I said, I think that the best that we can do is to try to communicate the situation as best

we can with developers and to push as hard as we can on the consenting arrangements and the resources that we have there. Ultimately, there is some limit to what can be done.

594. **Mr Givan:** When in that process does the red flag appear in the system, with the developer saying, "I have committed to people supplying me with all their product. I have been told that it would be done at this particular date"? I know that, in one particular project, six months is the delay that will be hitting the individual concerned. There are other farmers who are supplying into him who will not now be able to for this particular project. They were going to have a cut in May, and now that is not going to happen. They are left with financial penalties. When is it being flagged up that there is a particular project that will have a particular economic consequence for a number of individuals, not least the individual behind the scheme but also all the others in the supply chain, and that we need to prioritise resources to try to resolve those projects?
595. **Mr Atkinson:** At the end of the day, there is only so much prioritising of resource that will help a situation such as that. In cases in which a developer has a number of plants running with us, we give that developer, probably through a spreadsheet process, an update on a pretty regular basis. If one had got stuck particularly in way leaves, that would be flagged to him. When it is an individual developer, the relationship that he has with the planner who is dealing with the project is really the one that we need to highlight through that communication if the job is not going as quickly as we would like. However, to sit and say that we can give a guarantee that we can eliminate six months of delays would be unrealistic. The alternative of a compulsory way leave is so much further down the track that all that we can do is try our best to push through the consents in the more conventional way that do at the minute with our way leaves. I accept that, particularly in one-off individual cases, trying to keep the

communication channels as open as we can during that process does present a challenge, simply because of the volume of jobs that we are doing at the minute. I think that, in most cases, the developers are fairly well aware of where their project sits. If there are individual cases in which they are not, we can address those.

596. **The Deputy Chairperson (Mr Flanagan):** That is it for today. Are you happy enough to follow up on any written questions that we may have following the briefing?
597. **Mr Tarrant:** Yes.
598. **The Deputy Chairperson (Mr Flanagan):** Thanks for your presentation today. It has been very helpful.

## 14 April 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

### Witnesses:

Ms Maureen O'Reilly	<i>Independent</i>
Mr Kevin Kingston	<i>Northern Ireland</i>
Mr Stephen McCully	<i>Chamber of Commerce</i>
Ms Ann McGregor	

599. **The Chairperson (Mr McGlone):** With us are Mr Kevin Kingston, the president of the Northern Ireland Chamber of Commerce; Mr Stephen McCully, vice-president; Ms Ann McGregor, chief executive; and Ms Maureen O'Reilly, who is an independent economist. You are all very welcome. It is good to see you again, Kevin. Should I address you as "Mr President"?

600. **Mr Kevin Kingston (Northern Ireland Chamber of Commerce):** No, it is not that formal.

601. **The Chairperson (Mr McGlone):** Thank you very much for making your paper available to us. This is a very important issue and, hopefully, the ducks will eventually all line up in a row for us to deliver on this. You have been here before and you are aware of the format. The floor is yours to make an opening statement, and then we will have a question-and-answer session with members.

602. **Mr Kingston:** Good morning, and thank you for this opportunity to meet the Committee today. We really value these opportunities to engage directly with

our representatives here at Stormont. I am joined this morning by Ann McGregor, who is the chief executive of the Chamber, Maureen O'Reilly, the Chamber's economist, and Stephen McCully, who is vice-president of the Northern Ireland Chamber of Commerce.

603. I trust, ladies and gentlemen, that you know the Chamber as an organisation reasonably well. We are the largest independent business network in Northern Ireland. We exist to help our members grow, locally and internationally, and to help drive the development of the economy. We represent 1,200 members across Northern Ireland who employ about 100,000 people.

604. Turning to the subject of the Committee inquiry, I hope that you have all received a copy of our document. With your permission, we would like to summarise that before we move to questions. The first point that we make in the document is that we warmly welcome the progress that has been made on corporation tax in recent months. We believe that this is a major opportunity to drive economic growth in Northern Ireland. For us, the devolution of corporation tax is about jobs, creating opportunities on the ground and creating changed communities.

605. In our briefing document, we focus on what we believe are the actions needed to maximise this opportunity. Political stability is a crucial factor that has a huge impact on business confidence, which, ultimately, is a key ingredient in driving investment, growth and jobs. We highlight the urgent need to resolve the date and rate issues; business needs to be clear on what rate will be applied and when it will be available in order to begin planning for investment and growth. We highlight five areas that we believe are crucial to building the right foundation for growth following corporation tax

- devolution: skills, competitiveness, exports, infrastructure and supporting investment. I will ask Ann to comment on skills and infrastructure; Stephen on competitiveness; Maureen on exports; and I will finish briefly on supporting investment.
606. **Ms Ann McGregor (Northern Ireland Chamber of Commerce):** Thank you. First, I want to talk about the development of the skills and ambitions of our people. Preparing young people for the world of work, investing in the skills of those already in work and improving the employability of those not in work, particularly the economically inactive, is really important for Northern Ireland's competitiveness. Businesses can only perform as well as the people who start, work in and run them, and skills shortages are consistently raised as one of the biggest issues facing our members. There is quite a lot of data and good research available. For example, Northern Ireland is ranked twentieth out of 26 countries in skills, behind the UK and Ireland, and that has remained unchanged for a decade.
607. The supply of skills is not well aligned to labour market needs, and there is a brain drain. Recruiting international workers can also be a challenge because of issues with visas. Members such as Wrightbus have shortages of engineers; companies like CME and Concentrix state that they are short of software specialists and technicians; and Moy Park, Dunbia and others are short of food technologists and R&D staff. It is a feeling across the board. A higher share of our working-age population has low qualifications and low levels of literacy and numeracy, and many young people are not really equipped for the world of work. There is a shortage of graduates across a number of key areas, including management, software development, ICT and STEM. There is already pressure, and there will be additional pressure after the reduction of corporation tax. We believe that there will be a greater requirement for higher-level skills in the creative arts, managerial and professional roles and computer science, as well as management and leadership.
608. We make a number of recommendations. First, noting the absence of significant change over the last 10 years, we encourage the Committee to make sure that the planned skills barometer is put in place and that there are strong targets set for reskilling. Secondly, prioritising investment in further and higher education is really important. Both FE and HE are facing cuts, around 15% for HE and 12% for FE, which will reduce drastically both the number of courses and students. There must be actions to increase the inflow of highly skilled, experienced migrant and diaspora workers. We also need to upskill the low skilled and improve basic literacy and numeracy. We are suggesting prioritising the budget in those areas, but upskilling the existing workforce will be important as well. Actions to encourage businesses to invest are important, particularly in R&D but also in the supply chain opportunities that will emerge and in export expertise or international sales experience.
609. Those are immediate short-term actions that we recommend. In the longer term, we would like support for year 2 of any apprenticeship scheme launched this year. We would love to get access to the 2014 careers review. Preparation for the world of work, whether it is enterprise modules in HE and FE or a business governor, is very important for the young people of Northern Ireland. That is our skills piece.
610. Turning to infrastructure, a world-class economy needs world-class infrastructure to support economic growth. Businesses need certainty that crucial improvements will be delivered in transport, energy, telecoms and premises. After skills, the area we get most feedback on through our quarterly economic survey (QES) from members is infrastructure. We have done various pieces of research that we can tell you about. There are issues for us there, including the failure to invest in

- the capacity and maintenance of key routes such as the Westlink connection and the A5 dualling to Londonderry and Aghnacloy. We have really good broadband coverage, and there has been an excellent programme for rural broadband, but uptake is an issue, as are mobile connections. In the short term, we need more office space. We are prioritising grade-A office and industrial space, and demand is likely to intensify. Organisations like the port and harbour are engaged in good activities, which should be encouraged.
611. The York Street interchange really needs to go as fast as possible, literally — I know there is likely to be an inquiry. Investment in public transport, particularly the Dublin rail link, to enhance connectivity and mobility, is still an issue. We also support the further roll-out of broadband. There is good access to high-speed internet 93% of the time, but to 3G and 4G only 28.5% of the time. There is still work to be done in that area. In the long term, we need more aviation capacity. We should also look at investing in world-class digital infrastructure like 5G and at innovative techniques to fund investments like the Scottish Futures Trust model.
612. **Mr Stephen McCully (Northern Ireland Chamber of Commerce):** I would like to speak briefly on page 7 of the Chamber's submission. This set of actions focuses on the importance of promoting competitiveness in Northern Ireland through short-term and long-term actions, particularly on the cost of doing business. There is no doubt that a more competitive Northern Ireland will attract more investment and jobs, and local businesses will be able to compete more successfully, both nationally and internationally. The Economic Advisory Group's report on competitiveness in Northern Ireland produced in June 2013 concluded that Northern Ireland was forty-second of 145 countries. The report highlighted a number of weaknesses, such as access to finance and tax rates. As Kevin said, good progress has been made and, in
- the fullness of time, this will enable Northern Ireland to climb the league table.
613. In addition, our members tell us that they are concerned about business rates, specifically the future of industrial derating; the cost of energy, particularly for more intensive electricity users; and the cost of compliance with new regulations or red tape as legislation is transposed and applied locally. We recommend that actions in the short term to improve competitiveness should include taking the next important steps to set a rate and date, as Kevin mentioned. There are important actions to address the security of electricity supply in Northern Ireland by strengthening interconnection and improving electricity price alignment of all businesses, relative to an EU average. We also want to see business rates frozen, including the industrial derating arrangement, through to 2017 and active consideration given to the outworking of the recommendations of the DETI review of regulation and red tape, including, for example, the appointment of a regulation business champion.
614. In the longer term, we believe that there should be a more integrated plan for electricity network development to facilitate business growth in a timely way. Also, work should be done with Brussels and Westminster to stem the flow of changes in rules and regulations that impact business without delivering value to customers or consumers, nationally and internationally. Finally, we believe that active consideration should be given to further enterprise zones, like the new pilot enterprise zone in Coleraine, with rates relief, capital allowances, simplified planning and world-class infrastructure. That is my brief summary. I will now hand over to Maureen, who will comment on exports.
615. **Ms Maureen O'Reilly:** The Chamber's third action, as you can see on page 8, focuses on the need to support indigenous business growth, particularly growing Northern Ireland's trade potential nationally, because it is an

- issue selling to GB, and internationally. That is a particularly important issue for Northern Ireland and for the Chamber of Commerce because the starting point is that we have such a small economy and we need to look outside it very quickly to grow. It is interesting that, in every quarterly economic survey, competitiveness is a much bigger issue for Northern Ireland businesses than for the wider UK businesses who respond. It means more and better jobs and productivity improvements and attractiveness in FDI. There are so many pluses to try to encourage businesses here to export.
616. The difficulty is that we have a very small business and export base. We are the smallest of the UK regions in what we produce. That is because we have only 120,000 businesses here. Scale is a particular issue; we do not have very many large businesses with 250-plus employees compared with the UK average. We have a very small export base as well. For example, we have fewer than 1,600 goods exporters, which is one of the measures that we have used. Again, that is the smallest number across the UK regions. I am sure that you are all aware of the statistic on how dependent we are on a few large exporters. Just 10 firms account for half of our manufacturing exports; that is how dependent we are on a small number of large firms.
617. Businesses and the export base have been very hard hit by the recession here. The export base suffered particularly because of the fact that we rely so heavily on sales to the Republic of Ireland. In the build-up to the recession, a lot of that was related to manufacturing businesses linked in with the construction sector down South. There was a big fallout there. For example, between 2008 and 2009, we lost a fifth of the value of our exports in that one year alone. The number of new businesses that have been coming on stream has been falling as well.
618. A particular issue at the moment is exchange rates, which are not helping our exporters. In the latest quarterly economic survey, which will be published next week, that comes across quite strongly. Obviously, that is an issue for the wider UK economy too.
619. Last May, the Chamber held a conference named “Growing Something Brilliant”, which some of you may have attended. There was a very high attendance, and we asked businesses what were the issues for them as potential or existing exporters. We had a couple of hundred responses, which were equally split between the two, and, as you can see from the document, there are some different issues and some issues in common between potential and existing exporters. They had finance in common between the two, particularly for potential exporters, finding and understanding what new customers might mean for them. The Chamber’s particular focus is on trying to identify potential exporters and work with them. There is a fixed cost to market entry. That is a big issue for exporters, and we try to help potential exporters to get through that.
620. There are positives to build on after all that, notably the fact that we have a very strong manufacturing sector. There is resilience there in the businesses that have worked through the recession. We are the only region of the UK with a land border with the EU, which works to our advantage, and you can see that in the sales to the South. I know from doing a piece of work around the border region that businesses there trade naturally. It is second nature for them to trade with the South. That is something to work on and scale up.
621. In respect of recommendations, from the short-term perspective, the Chamber believes that it is critical that very accessible continual support is there for the whole business life cycle from start-up, to growth, to export, again with a particular focus on potential exporters and access to finance. An export action plan is in development at the moment, which the Chamber is very supportive of. The key is that it is focused on businesses, not on types of support but how the businesses actually access



that support. That is really important. It needs to be streamlined, visible and effective if it is to work. A particular issue slightly allied to that that has been raised by members is procurement. This is an issue that comes up quite regularly, and is about how SMEs participate in the whole procurement process. It should be easier for consortia, for example, to compete for larger public-sector contracts by removing some of the hurdles that exist for small businesses to get together and do that. From experience, the whole procurement issue is very resource-intensive and those costs bear particularly heavily on small businesses compared with large ones.

622. When it comes to the longer-term objectives, the Chamber would like to see the budget for export support increased, because it believes that it is essential for economic progress here. An issue that you should be aware of that the Chamber has been very much involved with is easy access and affordable air connections to international markets. That should be part of the longer-term plan, although it is obviously an issue that has been addressed in detail over recent months.
623. That gives you a flavour of the issues and asks around indigenous business growth and exports.
624. **Mr Kingston:** Chair, I would just like to finish with points around encouraging investment. Ultimately, the Committee will be aware that investment is what drives growth, and that is what creates jobs at the end of the day. Our sense from members, certainly the message we are getting from the QES, is that business confidence is not yet fully recovered. While consumer confidence is at a seven-year high, businesses are still relatively cautious in outlook. The points that we make in our report are about the need to improve business financial literacy, and helping businesses broaden the range of financing options that they use to make sure they have the right foundation for growth. We talk about planning structures and we suggest that we introduce a set of KPIs

for decision-making to help speed up the investment process. We state that we should “Northern Ireland proof” UK finance interventions to make sure that all such support targets real areas of need and specific issues in Northern Ireland. We also believe that there are opportunities to help business-manage cash flow, through better emphasis on prompt payment and the use of electronic settlement, and we encourage continued education around the whole R&D tax credits piece as a useful tool for driving R&D investment. Chair, that is a summary of our document. We are very happy to take questions.

625. **The Chairperson (Mr McGlone):** Thank you very much, Kevin. There are a couple of issues I want to come back on, such as the KPIs for decision-making. We have a patchwork quilt of the issues: we touched upon infrastructure, R&D, broadband, mobile communications — a whole plethora of issues. Clearly, investment is a key issue but just as much as anything else, the investment, how you make it, and the strategic delivery of it is important. We were out in Stuttgart a couple of weeks ago to see how the Germans do things, and it is certainly a bit of an eye-opener. A key part of that is planning and strategic drive.
626. We can all do things better, individually and collectively, but more importantly the political collective: the Executive and the Assembly. What suggestions do you have as to how to put this all together and integrate strategies and policies in regard to where we move the economy and how we move that economy forward? We have the tendency of that bit being in that silo, this bit being in this silo, and we want to make sure that the whole joined-up concept is realised — it is often talked about — for the betterment of the community. Have you any particular suggestions based on your own experienced wisdom?
627. **Mr Kingston:** The first thing I would point to is the importance of the entire Executive agreeing that the economy needs to be at the heart of the Programme for Government.

- If that real commitment is there, that guides and steers much of the thinking of government. We believe very passionately that growth in the economy has the potential to address many of the issues in Northern Ireland.
628. We talked earlier about corporation tax, for us, being about jobs. It is not simply about growing business. Why do we grow business? We grow business because that creates opportunities for people on the ground. That presents the opportunity to change communities and make a real difference for the electorate across Northern Ireland. It reaches into areas like education, the underprivileged and some of the social challenges we face in Northern Ireland. Therefore, the first thing for us is that the economy has to be at the centre of the Programme for Government, but with the acknowledgement that the reason for that is that we are changing Northern Ireland for the better for all of us by doing that.
629. **The Chairperson (Mr McGlone):** Have you specific suggestions as to how it could be done better to integrate that patchwork quilt?
630. **Mr Kingston:** From our paper today, you will have seen that, if we take the subject of driving the economy, and corporation tax in particular, there needs to be a joined-up approach for maximising that opportunity. That is, fundamentally, what we are calling for in this document. Much of the challenge that we face in a context of cutbacks and austerity is real and tangible but, at the same time, we need to be thinking about how we allocate resources so that we make the most of the opportunity in front of us. If you take a subject like skills, in the context where resources are tighter and we are working to tighter budgets, we must look at how we prioritise whatever resources we have to make sure that we drive the right skills to encourage economic growth to deliver jobs on the ground and opportunities for all our people in Northern Ireland.
631. **The Chairperson (Mr McGlone):** Maureen, geographically, I know where your roots are and that probably influenced what you said about business and doing it with the rest of the island, across the border and such. What you said took me into an area that has been discussed quite a bit over in England as part of the elections. If we were to have what is, to my mind, the crazy situation of withdrawal from Europe, do you have a collective view on that and where would that position us? I know where I am coming from personally and politically as a party representative, but do you have a view on the implications for the North?
632. **Mr Kingston:** I will take that one, Chair, if you will allow me. Very clearly, we believe that membership of the EU is critical for business, going forward. We believe that Northern Ireland is particularly exposed to changes. Any changes in this area go to issues of business confidence and impact on issues like corporation tax. I had the opportunity to travel to Washington over St Patrick's Day and talk with not just the Invest NI team out there but with some American business representatives. I know just how important that whole issue of access to the EU is for their planning purposes. Any uncertainty around that will only set back the good work that Invest NI is trying to do at the moment in publicising the opportunities that corporation tax now offers us.
633. The resounding message from us and our members is that membership of the EU is the right thing for us as a region.
634. **Ms O'Reilly:** I should say that that is an issue that has been asked about in the latest quarterly survey. It is not published until next week and it is something that has been asked in a wider UK context. As Kevin suggests, about two in three members believe that the UK should remain part of the EU. There is more detail on that and it will be available next week if you —
635. **The Chairperson (Mr McGlone):** When is that going to be available, Maureen?
636. **Ms O'Reilly:** Next week.

637. **Ms McGregor:** We launch it Monday morning, but we will have the data and I can give it to you on Friday, if you wish.
638. **The Chairperson (Mr McGlone):** Good. That would be very interesting.
639. **Mr Kingston:** There is an update every quarter, but there is an update on Monday for the most recent survey.
640. **The Chairperson (Mr McGlone):** That will be particularly interesting. Thank you for that.
641. **Mr Dunne:** Thank you very much, panel, for coming in today. We have enjoyed your presentation so far. I think that we all share your concerns and recognise your enthusiasm for business. One of the issues that you mentioned, Stephen, was the pilot enterprise zone in Northern Ireland. How do you see that working, and what advantages do you think it would bring in creating small businesses?
642. **Mr McCully:** It is useful to go back to the original question about how to bring all the components and drivers together. An enterprise zone is an ideal opportunity to focus on the chosen sectoral themes, on the skills agenda and on getting the right infrastructure, start-up incentives and capital allowances to keep the cost of capital as low as possible. Enterprise zones are ideal to pull all the strands of economic development together. They can work in different forms; there are 24 successful enterprise zones in GB, and they follow different themes and have different design characteristics. It is all about spotting where the best opportunities are for economic development and developing the enterprise opportunities around them.
643. **Mr Dunne:** Would you like to come in on that, Maureen?
644. **Ms O'Reilly:** I just wanted to say what Stephen said. What struck me about the enterprise zones — we had a chat about this — was how different they all were in how they went about things. It might be too early to say how effective they are, but it would be useful to look at the content of the different approaches to enterprise zones in GB just to see what lessons have been learned and what has worked well for them. The kinds of issues that they have addressed come up regularly when our members discuss rates and capital allowances etc.
645. **Mr Kingston:** That flexibility could be an important attribute in helping to tackle some of the specific Northern Ireland issues.
646. **Mr Dunne:** Is there something there that Invest NI is not addressing at the moment? Are there opportunities here through the enterprise zones that are not being tackled now?
647. **Ms O'Reilly:** In fairness, that is entirely different from Invest NI's objectives.
648. **Mr Kingston:** Yes, those changes would need to be led by the Executive rather than Invest NI. I am sure that Invest NI would be —
649. **Mr Dunne:** Part of it?
650. **Mr Kingston:** — well able to sell that globally, were there such an opportunity.
651. **Mr Dunne:** OK. Moving on, we have debated energy costs extensively here. I am sure, Stephen, that you can come in on that with your experience of NIE. What is NIE doing to manage costs, especially for businesses?
652. **Mr McCully:** Well, I am here on behalf of the Chamber of Commerce —
653. **Mr Dunne:** I appreciate that.
654. **Mr McCully:** I will swap hats for a brief moment to talk about Power NI. A reliable and affordable energy supply is vital for any economy. Northern Ireland does not have any indigenous sources of fuel, and its remoteness and lack of scale are disadvantages in the context of delivering a secure and affordable electricity or energy supply generally. The regulator's last price comparison confirmed that, for the vast majority of customers in Northern Ireland — domestic customers, SMEs etc — the prices paid are in and around the European average. That is probably not

- a bad place to be. I accept that prices for more intensive users — I know that you have heard from Manufacturing NI —
655. **Mr Dunne:** We have indeed.
656. **Mr McCully:** — are out of kilter with that. They are at the higher end of the European continuum. Work was undertaken by the regulator last year to identify the reason behind that, and it is an allocation issue, particularly around infrastructure, network costs and levies. It is interesting that, last week, the regulator published a consultation on addressing one aspect of that, which is the raising of the funds for the energy efficiency programme. The recommendation is that that should be slanted more in favour of larger businesses. That is one step down the route of addressing the allocation issue for more intensive electricity users.
657. **Mr Humphrey:** Thank you very much for your presentation. At the outset, you talked about progress in terms of corporation tax being important, and you welcomed that progress, but you will appreciate that we are not actually there.
658. **Mr Kingston:** Yes.
659. **Mr Humphrey:** In the Chamber's view, if we fail to get corporation tax, how damaging will that be to Northern Ireland's economy, and what is the opportunity cost of that?
660. **Mr Kingston:** I will speak both personally and as president of the Chamber on this. From my personal perspective, I have been in business in Northern Ireland for a couple of decades, if not more, at this stage. I have seen so many different initiatives over the course of that period in terms of trying to rebalance the private sector and address the scale of the public sector in Northern Ireland. We have specific issues — legacy issues — which we are tackling at the same time as dealing with an increasingly globalised world economy and the challenges there. For me, corporation tax is the opportunity to change that pattern. It is an opportunity to drive growth by encouraging business investment. The numbers are well documented: we are talking about an extra 30,000 to 40,000 jobs. I keep coming back to the point that, for us, corporation tax is about changing communities. It is about creating jobs and opportunities for our people, and if we can do that, we change Northern Ireland. The scale of the job opportunities that are in front of us with corporation tax is, in my view, the biggest opportunity that we have. It would be beyond a sin to waste that opportunity. It is too big for us to let it slip through our fingers.
661. **Mr Humphrey:** Have you personally, then, or the Chamber collectively, been making those views known to political parties?
662. **Mr Kingston:** Yes, we have. We have made our views known to, I think, everybody around the Executive table. As I say, we believe it is crucial to the future. We have had significant progress in terms of the devolution of the power, but I take the point that there is still work to be done in actually delivering it on the ground. For us, that goes back to the points we have made about rate and date, about political stability, and about certainty to allow business to get on with the process of planning, investing and creating jobs.
663. **Mr Humphrey:** Turning to business tax rates, I was contacted at the weekend by a city centre businessman who will now have a rates bill of £76,000. You have put forward some ideas on how this could be changed, whilst at the same time providing adequate funding for local government to take things forward. What is the Chamber's view on that issue?
664. **Mr McCully:** The key focus is around the competitiveness of the region and trying to iron out any regional disadvantages with respect to business tax. There has been a lot of change recently with the revaluation process. There is an opportunity in the year that lies ahead to take stock and to look at the best rating systems going forward to properly

- incentivise business. Manufacturing has the 30% derating cap, which is very important. Enterprise zones have already been mentioned; there is a business rate break in that concept as well. Collectively, we have to ensure that the business rating system is designed to deliver the right strategic outcome, both for the economy and socially for Northern Ireland as a whole.
665. **Mr Humphrey:** You have met the Finance Minister and, I presume, NILGA on these issues, yes?
666. **Mr Kingston:** Yes.
667. **Mr Humphrey:** Can I ask what the outcome of those conversations was?
668. **Mr Kingston:** There are always going to be tensions and prioritisation around how those decisions are made. For us as a Chamber, the priority needs to be on driving economic growth. In particular, what parts of the economy will drive the greatest job creation and be of the greatest economic benefit for all of us across Northern Ireland? We welcome the progress that has been made in the recent revaluation and accept that there are still some challenges and anomalies for individuals that need to be worked through, particularly for certain sectors. The bigger issue for us is what can be done in that entire space around making sure that Northern Ireland is as competitive as possible to drive growth.
669. **Mr Humphrey:** As part of your presentation, you mentioned the shortage of skills. You mentioned Wrightbus and the shortage of engineers, Moy Park and food technologists, and the general shortage in IT skills. I absolutely agree that there needs to be a joined-upness in the Northern Ireland economy, both with regional government and local government. Also, given the issue raised, there obviously needs to be a very clear joined-upness between DETI and DEL and the regional colleges and the schools in terms of career choices for young people. Has the Chamber been proactive around that issue?
670. **Ms McGregor:** Through our quarterly economic survey, we always get information on the skills, and we bring that information to the attention of DEL and DETI. We welcome the formation, possibly, of a Department for the Economy, which means that there will be more interaction. From a policy viewpoint, we are always bringing that message to DETI and DEL, so yes, I can say that we are. We also responded to the budget review. We always give examples of what the issues are for business, and that is why we are lobbying for university funding and FE funding to be looked at: because they have really strong connections to business. We are a bit concerned about literacy and numeracy, and possibly, for example, there could be more interaction between DE and DEL.
671. **Mr Humphrey:** Chairman, have I time for one more?
672. **The Chairperson (Mr McGlone):** Just a quickie.
673. **Mr Humphrey:** You mentioned the transportation infrastructure and projects that need to be progressed. Can you expand on that?
674. **Ms McGregor:** Again, we are bringing the views of our members to you. Businesses getting their product to the harbour, the airports or whatever find that there are areas of the roads that are not optimal, and that is well rehearsed. There are 100,000 cars a day and many more lorries using the link between the M2 and the M3, so that whole piece in Yorkgate slows things down. Also, businesses based out in the regions find that areas around Toome slow them down, whether they are going to Derry, etc, and between Derry and Aghnacloy. Road infrastructure is really important to get your goods to market. Our members repeatedly say that.
675. **Mr Humphrey:** Outside of those two, you welcome the progress of the Larne —
676. **Ms McGregor:** Yes, it is excellent, and I understand that that will be opening shortly. That will obviously improve the infrastructure there. More of that would

- be useful. It would be nice to have one around Toome.
677. **Mr Flanagan:** Thanks for your presentation. I recently had a very positive and useful engagement with the Chamber, and I hope that that continues. The first thing that you said, and the first thing in your presentation, is that the Chamber believes that we need a stable political environment. Can you elaborate a bit, Kevin, on what that actually means?
678. **Mr Kingston:** For us, the issue of political stability goes to business confidence. It is about businesses having the confidence that they can plan for the future and have a broad understanding of what the parameters will be in which they will be making that investment. The current example of corporation tax goes to the rate/date point. Businesses are calling us to find out what that rate will be and when it will be introduced. That ties in to the whole point around political stability, which in turn drives confidence. Should I make an investment? Should I plan out three years for a new factory on the back of the money that I will save from corporation tax? I will be able to plough that back into a few factory, perhaps — or not. People need that confidence and visibility, because significant investment decisions are generally a three- to five-year time period.
679. **Mr Flanagan:** How is the threatened referendum on EU membership impacting on business confidence and political stability?
680. **Ms O'Reilly:** That is something that businesses are starting to think about, which is why the Chamber, and even the British Chamber, decided to ask about it this quarter. Off the top of my head, I think members are calling to stay as part of the EU. The EU issue is maybe just that wee bit removed in how it impacts on businesses at the moment, as opposed to something like corporation tax, which does have an impact on investment decisions.
681. **Mr Kingston:** Once we get through May and the issue really comes to the fore, it is going to become a much bigger issue. In Northern Ireland, we have been very much focused on some of the immediate challenges that we face and the corporation tax debate, which perhaps has led to the EU issue not having the focus that it should have had. I think that in a couple of months it will really be coming to the fore, Phil.
682. **Mr Flanagan:** It is maybe a bigger issue between now and May than after that, because the way that people vote between now and May will determine whether there is a referendum or not.
683. **Mr Kingston:** Yes.
684. **Mr Flanagan:** One issue we have looked at here is redressing regional imbalance. That was a Programme for Government commitment from 2011 to 2015. Have you done any work on how we collectively can attract greater levels of investment into rural areas and encourage businesses to locate and invest in rural communities?
685. **Mr Kingston:** Much of what we talk about in this document goes to that point, Phil, in terms of creating the foundation for growth across all of Northern Ireland and not simply in Belfast. Issues such as infrastructure go to connectivity and broadband access outside Belfast. The skills piece goes to availability of the right skills in the north-west and Fermanagh. Those are fundamental points.
686. **Mr Flanagan:** I hear what you are saying, but you are talking about a rising tide lifting all boats, and that is not how the world actually works. If you take my area of Fermanagh, in 2013-14 Invest NI brought only three companies to consider investing in the county, and that was despite £92 million spent hosting the G8 that year. A rising tide did not lift the boats in Fermanagh, let alone everywhere, that year. Are there any measures you would consider supporting to address that regional imbalance, as opposed to a

- blanket approach to improve the overall situation?
687. **Mr Kingston:** Creating the right environment is fundamental for all parts of Northern Ireland. The other initiative that we touched on this morning that might be particularly relevant in that context is enterprise zones. Those create opportunities for particular incentives in a particular area, and the opportunity to create clusters of particular industries. Those sorts of specific initiatives could target investment at a geographic area.
688. **Ms McGregor:** There is also the issue of indigenous business growth. It is important that we have continuous support across Northern Ireland so that any business going into any area will get the same support. At the minute, we have a start-up programme and then you have access to Invest NI's suite of products and services. If you are a middle business — not quite big and not quite a start-up — the support is confused. We believe there needs to be a Northern Ireland-wide business development programme to help some of those indigenous businesses to grow. There are some really good businesses around the country across the sector that need to grow. Helping them to recruit 10 or 20 more people would be helpful across rural areas.
689. **Mr Flanagan:** One of the historical criticisms of Invest NI was that it was only interested in foreign investment. I have seen a sea change in that in the last number of years, and that has been reflected to me by business owners across the North, but there is still a gap between start-up businesses and businesses that move to exporting, and the businesses in between. There have been a number of pilot programmes set up through Invest NI with Fermanagh District Council, such as the Survive and Thrive programme and the Grow and Prosper programme. Those are useful and successful and need to be considered in other areas and be done across the North.
690. In terms of how Invest NI operates, it is usually given a four-year target, which is broken down into four financial years. Would you support or consider supporting the setting of subregional targets for Invest NI for the creation of jobs in specific subregional areas and the level of investment that it should attract?
691. **Ms McGregor:** That would be quite challenging. Employers and inward investors make choices about where they want to be according to where the staff are and the communication is. You also have indigenous businesses. If someone set me a target for creating and growing businesses in Tyrone, where all those great engineering firms are, that would be achievable. However, we have to face it: there are rural areas that have a very low business base, so setting a target for each county and region would be hard. Maybe there is something —
692. **Mr Flanagan:** The target does not need to be the same. If an area has a low business base, its target could be fairly low.
693. **Mr Kingston:** I guess that that is the crucial point, Phil. It is how the targets are set and in what context. We would not want to drive wrong business decisions, but at the same time we obviously want to make sure that all of Northern Ireland benefits from economic growth. I guess that an awful lot of what you are suggesting comes down to how those targets are set, the detail that they go into for each geographic area and the parameters that Invest NI has to work to.
694. **Ms McGregor:** Our councils obviously have a major role to play in that regard. They will have local targets and will be more interested directly in their local areas.
695. **Mr Flanagan:** The final point that I want to make is on the cost of doing business. You mentioned industrial derating on a number of occasions. As far as I am concerned, that is not on the table. I have not heard anybody mention

- changing the current policy, so, if I was you, I would not get too exercised about that or remind people that that policy exists.
696. **Mr Frew:** Raise the hare.
697. **The Chairperson (Mr McGlone):** That has reminded me about something that I was going to ask about: the review of business rates. We were told that there would be winners and losers on that, and I know that we are probably picking up on the losers. Have you done any research among your membership to find out how that —
698. **Ms McGregor:** Unfortunately, we have not, but we could do that quite easily for you.
699. **The Chairperson (Mr McGlone):** Just as an aside, that would be very helpful.
700. **Ms McGregor:** We can ask that in the next survey.
701. **The Chairperson (Mr McGlone):** Picking up on some of the stuff that Phil was questioning you on, I want to ask about the necessary requirements for a business if it comes to an area. Underinvestment in infrastructure or underinvestment in, or a lack of, grade-A office accommodation in an area — straight away, before an investor comes, those may well be absolutes for them. Have you had a chance to have a look at the report on grade-A office accommodation? If we do not have the space to put people in and investors are hopefully knocking down the door to get here, that will provide a major challenge for us. If you have looked at the report, do you have particular solutions for that question of grade-A accommodation? I am sure that maybe you, Kevin, wearing your professional hat, come into contact with some potential providers of such accommodation.
702. **Mr Kingston:** Chair, you are absolutely right. For us, one of the major issues as we look ahead to the next few years is the availability of grade-A office space in Belfast and in the regions. All the figures, which have been backed up by recent reports, suggest that the supply situation will be extremely tight over the next few years if you layer on what we all hope will be delivered as a result of the devolution of corporation tax. Indeed, I have seen some figures that suggest FDI demand of 820,000 square feet over the next three years, which compares to a current annual demand of about 225,000 square feet. Potentially, FDI could double demand for grade-A office space over the next few years.
703. You are right that I have a Chamber perspective and a professional perspective, so, if you will allow me, I will comment in both of those contexts. In the short term, there is an issue about the availability of space and the level of investment that is going into grade-A office blocks at the moment. We start with that position. Ultimately, speaking from a financing perspective, I do not believe that there is a fundamental lack of capital for investment. I regularly, day in and day out, speak to businesses that have the capacity and the capital behind them to build grade-A office blocks, whether inside or outside Belfast. They are not doing that because the economic returns are not there at the moment. At £12 to £14 per square foot of rental, as it is at the moment, the economic returns simply are not as attractive as other opportunities that are in front of people, so investment is not going into grade-A office blocks. The harbour is a unique situation in that because, to be honest, most of our larger companies and big construction businesses that might have the capacity to make those decisions can get better returns by investing their capital elsewhere. I suggest that we need to see an increase in rentals over the next few years to attract capital into the creation of grade-A office space.
704. **The Chairperson (Mr McGlone):** That is what I was going to ask. What is the tipping point? What is the key? If you have underprovision and high demand, that is inevitably going to drive prices way up —
705. **Mr Kingston:** It will.



706. **The Chairperson (Mr McGlone):** — but you are still going to be left with underprovision.
707. **Mr Kingston:** I think that the point that you are raising, Chair, will address the issue over the longer term because costs of rent will rise. For me, a figure of about £18 creates the right economic return to attract investment. We are still a way off that. However, even if it does move to £18, we are still extremely competitive compared to the rest of the United Kingdom and internationally. I do not think that it will be a fundamental issue for Invest NI in being able to attract FDI, but it does need to be higher than it is at the moment to attract investment over the longer term. There is perhaps an argument for some sort of incentive or initiative to try to drive the short-term position, but, over the longer term, I do not believe that there is a fundamental market failure.
708. **The Chairperson (Mr McGlone):** That is what I was going to come to. With that incentive, you are obviously talking about public intervention, whatever that might be. Should it be by way of grant or inducements or by bringing in secure tenants from the public sector to be the first tenants in any new proposed development? What is the thinking there?
709. **Mr Kingston:** I would be flexible on that. The key issue for me is creating the right economic return to attract investment. You can do that in a number of ways. You can do it by way of a rent subsidy, or a capital subsidy or, perhaps, a public sector intervention in creating a core tenant to allow the rest of a development to become a reality. There is a range of options there. What I am saying is that there is an argument for that in the short term, but, over the longer term of a three- to five-year period, I would hope that, if rentals increase, we will see capital flow into that opportunity and address some of the challenges that we have.
710. **Ms Fearon:** Thanks very much for the discussion so far. First, could you give us your thoughts on our lack of accurate economic data? The reality is that we do not have a comprehensive picture of our local economy. We believe that if we had more localised data that is specific to the North, we would be able to design more specific economic strategies that would tackle some of the issues that we are facing.
711. **Ms O'Reilly:** It is probably fair to say that our data is not too bad. It is difficult to get an angle on economic output on a very regular basis, which is maybe what you are talking about, but there are good barometers and stats on unemployment, business start-ups etc. The Northern Ireland Statistics and Research Agency (NISRA) is conscious of this and is trying to strengthen the data all the time. On exports, NISRA has come up with a new indicator on broad economy exports, which is useful. I was thinking about the support given to manufacturing. There is a growing tradable services base in Northern Ireland. That is coming through again clearly from the quarterly economic survey. Going forward, how to try to provide as much support to the tradable services sector as the manufacturing sector gets might be looked at. Maybe I, as an economist, do not see a problem with the statistics because I work with what I have got, but I think that our statistics are quite good except on that angle on economic output. The indicators are largely there, I think.
712. **Ms Fearon:** Ann, you mentioned broadband earlier. Is that something that you have surveyed businesses on? There are huge black spots in Newry and Armagh. You have construction companies taking a full day to download a tender. It is a nightmare for local businesses. Is that something that you have surveyed your businesses on?
713. **Ms McGregor:** We have not surveyed, but we participate in a panel that is trying to look at increasing usage. We are doing that with BT and other mobile providers. There is good basic broadband coverage across Northern Ireland, but there are black spots around. Ofcom has a really good website, where you can see the size

- of broadband coverage and take-up in an area. It shows that Northern Ireland has something like 94.6% take-up but that, when you get down to 3G and 4G, that all changes. We get feedback, but we can also see from the Ofcom data, which is very public, that there are issues. The rural broadband fund should help, but there is still more to do.
714. **Ms Fearon:** The mobile infrastructure project being rolled out by Arqiva will obviously help connectivity as well.
715. Finally, on skills, on page 6 of your briefing paper, you state that our skills supply is not well aligned to the local labour market. I have heard that from local IT start-ups in the last few weeks. You recommend a reskilling programme. Can you give more detail of what that would look like and how we would focus on the skills that we require?
716. **Ms McGregor:** There is some good work already being done in that regard. Our FE colleges across the country are connecting well with businesses. The new apprenticeship programme that is coming out, with the high-level apprenticeship schemes, will help in that, and we will be supportive in that. However, the cuts to the higher education and further education sectors are not coming at the right time. If any prioritisation had to be given, I would say that you should look at our universities and colleges. We are going to lose something like 30,000 places in FE colleges come September. Universities, although the figure varies, will lose about 1,100 places. We really need to think about that, once we get the date and rate for corporation tax devolution, and if there is any extra money, put it there.
717. **Ms Fearon:** Is the smoother transition from education to the workplace focused just on third level, or would there be a role for DE?
718. **Ms McGregor:** We have some serious data. Our destination-of-school-leavers data shows that 43% go into HE, 34% go into FE, 6% go into employment and 11% go into training. We are hearing from employers that some young people, despite quite a bit of training and development, are still not ready for the world of work and still do not have good general communication skills. They sometimes make wrong career choices. We would be supportive of good work experience, good university placements and better interaction between business and schools. We would love to see business governors in every school across Northern Ireland, higher quality work experience and all the stuff that you know. It is still a challenge.
719. **Mr Frew:** Gordon Dunne raised the issue of energy costs earlier. Your report shows that three fifths of businesses, 62%, state that energy costs are burdensome. We all know the problems. It is a very complicated system with, might I add, a lot of players all playing their part to make it even more complicated. We all need a solution. We all know the problem. We can see it. We can feel it. Businesses feel it. I suspect that, if you were to ask large employers in industry, over 90%, if not even more, would say that they feel that pain. What solutions does the Chamber of Commerce have? You cited one example, but, really and truly, you are talking there about a small relief for a small number of businesses. In my eyes, what we need is a complete sea change in the way that we do energy. The integrated single electricity market (I-SEM) will not cut it. In fact, it may make it even more complicated and less transparent. Have we solutions?
720. **Mr McCully:** In my earlier response, I said that Northern Ireland struggles with scale and that interconnection is relatively weak at the minute. Unfortunately, we cannot capture scale from outside that market. That is going to be very important to reinstating stronger interconnection. Scale will bring with it benefits. It will allow energy traders and energy suppliers to purchase in other markets. The I-SEM, in its intent, should allow for the free flow of energy across state boundaries. I think that intent is absolutely right, but

- the devil is in the detail. We have to see that detail, and it is evolving very slowly.
721. Economic development helps greatly with spreading the fixed costs. We have seen manufacturing, particularly in large industry, struggle over the last decade, and demand has reduced in the higher levels of the electricity network. If we get the right type of economic development, that demand will increase, and that will allow for those fixed costs to be spread over a larger number of units. That will bring the unit price down as well. It is all about scale. I agree: we all need to focus on I-SEM until it delivers what it intends to. However, scale is desperately important in the overall equation.
722. **Mr Frew:** I take your point about isolation and scale, but if you take the argument or solution that you have just given, about spreading it over the costs, to its logical conclusion, where the costs are so high that the businesses and large employers are coming off the grid, which then makes it even harder, but which businesses find to be vital, you would have to support them individually. What is the Chamber of Commerce's view regarding the move by NIE on stopping the grid connections?
723. **Mr McCully:** For new investment into Northern Ireland, I think that it is important that we have a very clear strategy and plan to ensure that the network develops to allow timely connection of new demand and new loads on to the system. We all need to work. Clearly, NIE is important; I cannot speak on its behalf, but it will be very important. Other stakeholders provide vital input to that. Enterprise zones are useful. They can help identify opportunities where they can develop the more intensive business clusters. Energy-intensive business clusters can be targeted in certain geographical areas, and that could be a very useful tool in the overall economic development.
724. **Mr Frew:** It is going to be a problem that stays with us for a very long time, and solutions will have to be found by all of the players in energy.
725. I move now to the remarks in your report about better regulation. I know that a piece of work has been done by DETI to try to improve regulation. You mentioned the business champion defending the position of the business world. Are there any signs or evidence that better regulation is happening, or is it getting worse?
726. **Mr McCully:** I will swap hats again from a professional perspective. We see a lot of regulation coming down from Europe. I think there is an opportunity to apply common sense, because its initial intent is to develop where there is a cost-benefit test, but, sometimes, once it reaches a local level, it becomes distorted. It is all about ensuring compliance. I do not think we can avoid compliance; it is about complying with legislation in the most cost-effective way to maximise the benefit that can be achieved and remove all bureaucracy. I think that there have been good steps. There were good outputs from that report that are worthy of taking forward, and every piece of legislation that gets transposed into Northern Ireland needs to be carefully looked at to ensure that we are getting the best possible and most cost-effective compliance solution.
727. **Mr Frew:** I note your comments about the European Union. Who does the Chamber of Commerce blame for regulation? It will not all be pointed in the one direction, I am sure. Where is the bulk of the problem coming from? Is it Europe, or is it Northern Ireland's interpretation of the regulation?
728. **Mr McCully:** It is probably a bit of both. Work needs to be done. I mentioned that we probably need to go more to the source in Brussels to put forward our case so that we can catch legislation before it is fully developed. I think that more can be done at a local level as we, as regulators, start to interpret some of the regulations locally.
729. **Mr Frew:** With business at the minute, export is critical to Northern Ireland, and the way the currencies are — that is, the euro and the dollar in comparison to the pound — is causing big problems

- for exporters. You recommend increased support for exporters. In what guise will that come? What will that look like, and what sort of support is available?
730. **Ms O'Reilly:** There is good support available for exporters at the moment, particularly existing exporters. The export action plan that is being developed at the moment is trying to look at what is there and what could be done. In fairness, that is in development. When looking at support in the Republic of Ireland, it struck me that it has very specific support for potential exporters, and that seems to work very well for seeing who has the capability. Not every business will have the capability to export. There is finance available for exporters here, and the Chamber of Commerce has been very actively involved in that. There is good support. There might be a couple of gaps in it, and hopefully the export action plan will identify them. As with most things, it is really about businesses understanding what is out there. Ann mentioned the broader support earlier, but, typically, when you try to understand what programmes are available, it is still very difficult for businesses to navigate that, particularly younger businesses and the ones that do not know what kind of help they could get. That is critical.
731. **Mr Kingston:** Particularly for so many start-up business that are time-poor in the early stage when they have so many competing demands.
732. **Mr McKinney:** I apologise for not being in at the start. Thank you all for your presentation. You mention that tax rates are problematic. Maybe you could elaborate on that, especially given that the tax regime comes from Westminster and most of it is not devolved. You hit on the issue of rates earlier, but there is clearly a gap in knowledge about how most recent rises have impacted.
733. **Mr Kingston:** I guess that we are coming from two perspectives, Fearghal. The first is the competitiveness and challenges that business in Northern Ireland has, and we have talked about the scale of that and some of the particular Northern Ireland issues. We believe that the likes of business rates have a role to play in acknowledging that competitiveness challenge and helping to create a level playing field for business so that Northern Ireland can move forward at the pace that we all hope it will. The second point is about helping to drive investment and growth with any resources that are not used for paying tax being diverted back into business and investment, and corporation tax is the example of that. So many indigenous businesses are saying to us that that reduction in tax will create an opportunity for them to invest that money back into growth and jobs.
734. **Mr McKinney:** When you refer to the tax rates being problematic, you are talking about corporation tax.
735. **Mr Kingston:** Yes, largely.
736. **Mr McKinney:** You talk about innovative techniques to fund investment and cite the Scottish Futures Trust, etc. How would that work here?
737. **Mr Kingston:** The example of the Scottish Futures Trust is worth a look; that is why we mention it in our document. In particular, they have developed something called a non-profit distributing model, which is a variant of, or the next stage on from, the old private finance initiative (PFI) or private-public partnership (PPP) models. They were very popular at one time, but ran into difficulties associated with the level of private sector returns built into some projects. Scottish Futures Trust is non-profit distributing; there is essentially a capped return for the private sector from some of the projects. In many ways, it looks similar to some of the old PFI/PPP projects, which allow private sector investment to substitute for Government capital; but returns are capped, preventing some of the excesses that, perhaps, discredited many PPP/PFI projects.
738. **Mr McKinney:** What implications are there for the block grant in levering

- private funding for what is Government business infrastructure?
739. **Mr Kingston:** At its simplest, attracting and incentivising the private sector to substitute anywhere for Government capital grants has to be a good thing.
740. **Mr McKinney:** Would London subtract it from the block grant? Have we worked that out yet?
741. **Mr Kingston:** I am not sure.
742. **Ms McGregor:** I am not sure. BT funded the rural broadband fund by £29 million, DETI by £18 million, and DARD by £1.5 million. There probably needs to be more reinvested.
743. **Mr McKinney:** Maybe in that Toome bypass you are talking about.
744. **Mr Kingston:** I cannot see why there would be an argument for deducting it on the basis that Government has sourced it from the private sector. Obviously, there is an impact on ongoing revenue for Government, but it would effectively be fresh money that is not taken out of the capital budget.
745. **Mr McKinney:** You also talk about creating the right financial environment and improving awareness of and access to alternative sources of finance, but how does Government do that in practical terms? Should business not take more responsibility?
746. **Mr Kingston:** Yes, business definitely has a role to play. That statement speaks to a number of points, Fearghal. It is about educating financial executives in banks, for example, to ensure that they are aware of the entire range of options. Very often they are the first port of call for a young business that may not yet be appropriate for debt finance. There is an opportunity to ensure that business managers understand that debt may not be the appropriate product for them at this stage in their company life cycle. They need to know that Invest NI has a range of products on an access to finance continuum, some of which might be the right product.
747. **Mr McKinney:** Is that what you are talking about in your education forum?
748. **Mr Kingston:** It is one of the pieces. The wider piece is making sure that we communicate, and the Chamber of Commerce has a very definite role to ensure that we communicate what opportunities and schemes are available. We touch on R&D tax credits and so on. That is a good example where the Chamber of Commerce and business can work together to make the most of that opportunity.
749. **Ms McGregor:** We are doing a couple of things. Invest NI has really good information on all their sources of funds, such as the WhiteRock fund, and we promote that around businesses across Northern Ireland. Also, in my access to finance role, I have been meeting with the Institute of Chartered Accountants to see how it can get all that information across. The big four accountancy firms know a lot about the schemes, but many businesses are advised by small rural accountants, who they may have gone to school with or who have been based in the town for many years, and some of them, with the greatest respect, although talented individuals, are not totally up-to-date with all the schemes out there. We are therefore working on doing some regional workshops to address that. Anything that encourages people to learn more, so that they become better advisors, is important.
750. **Mr McKinney:** Who takes the lead in an education forum?
751. **Mr Kingston:** I do not know if there is a single lead; I think there are initiatives across all the interested parties, Fearghal, whether the business organisations, such as ourselves, or banks. All of us have a role to play.
752. **Mr McKinney:** If we just zoom out for a second and touch on Patsy's point about strategically driven planning. I assume, Patsy, that you are alerting us all and reminding us that that is absent in very many cases. In the absence of that, what does the continued pressure on the block grant and the weakness

of our private sector say about our sustainability going forward?

753. **Mr Kingston:** The issues of scale and the specific challenges that we face, being an island off an island and all of that, are very well rehearsed, but they are also very real. They are tangible challenges. The challenge for all of us is accepting and acknowledging those. How do we create the right environment to drive growth for the future? That is why we particularly welcome this discussion and this piece of work that the Committee for Enterprise, Trade and Investment is doing; we think that is what we should be talking about. Let us get corporation tax on the books, let us clarify the rate and the date point and create the environment for business to get on with what you want them to get on with and what we want them to get on with, which is creating opportunities for our people on the ground.
754. **Mr Ó Muilleoir:** Go raibh maith agat, a Chathaoirleach. It is nice to see you all again. My apologies for being late. I wanted to pick up on the issue of partnership. Our friends from the Concentrix global board, SYNEX, were in Belfast last week, and one of the members of the global board said, "Who is telling the story about your city and the special interest in Belfast? Who is putting the narrative out there about the changes in the city?". When talking of partnership, is there a role for an organisation, whether it is a council, a partnership, an alliance, or a competitive partnership, as they have in the city of Boston, that will help government and those of us in government tell the story about Belfast. I do not want to ask you at this stage to spend money on that, but when you look at the good news about Concentrix taking over Maysfield and spending £10 million turning it into office headquarters, and Allstate buying a site just beside that, you really can see an arc of development on the river, and then Deloitte is at the gasworks. Sometimes, I think that we need more people to tell that story. So, the question for the Chamber of Commerce is, between now and the next couple

of years, is there a way that we can do more in partnership to tell that bright story?

755. **Ms McGregor:** There definitely is. Belfast City Council has done good work on that area already. I cannot remember the name of the document, but we have different departments that do inward investment or skills, but there is a whole city narrative, as you said. I cannot remember the name, but we have all been consulted on how we describe Belfast and how we promote Belfast. We are trying to agree key messages that we can all do together, so if we as a Chamber are out anywhere, we can talk about the key facts and figures around Belfast. So, there is work progressing there, and I think that Belfast City Council has a very strong role to play in that.
756. **Mr Ó Muilleoir:** Are you leaving the work to Belfast City Council?
757. **Ms McGregor:** Oh gosh, no.
758. **Mr Ó Muilleoir:** Might you be able to do it better than Belfast City Council?
759. **Ms McGregor:** I have attended about three different sessions with other business organisations and players, such as airports or whatever, to agree on the key messages that we are putting out about Northern Ireland. It is still at the early stages of development, but it is something that we completely support. As a Chamber, we spend our life promoting our 1,200 members. We have our magazine 'Ambition', and we have e-zines. It is all about positive messaging. As you know, Concentrix was here last week. I think that I met you down there afterwards. Our next feature is all about the investment, of Gem coming into Concentrix and being part of SYNEX etc. Those are great stories that we are trying to encourage across Northern Ireland. We had a whole campaign called Growing Something Brilliant for three years, which was trying to inspire businesses to grow and to share the great stories, and we are happy to do that with Belfast City Council and anyone else out there.

760. **Mr Kinahan:** Apologies for being late; I am sorry not to have heard your presentation. I have lots of questions. You have probably answered most of them, but one follows on from Fearghal's question. I was always under the impression that we could not gear money on the back of our block grant, but the new super-councils are in a position to do so. One question is this: do you see councils, therefore, being more key in learning how to use finance? At the other end, should we have our own investment bank or fund here that allows a bit more freedom?
761. **Mr Kingston:** Yes. You have raised a number of interesting points there, Danny. We certainly believe that the changes to the councils are a real opportunity for changing the economic development dynamic in local areas. Indeed, as the Northern Ireland Chamber, we have been espousing the concept of the local chambers across Northern Ireland as perhaps having a key role to play in that. The local chambers across Northern Ireland are the ideal representatives to contribute to the development of community plans. They have the local insight and the understanding of the needs of business at a local level.
762. We are beginning to see the opportunities for the councils as they work through the new powers that they have in front of them. I do not think that they are, by any means, fully developed, but that is simply an inevitable consequence of the timing of where we are on that. There are real opportunities; we have not yet seen the new powers being flexed, but there is potential there for real growth.
763. **Ms McGregor:** In terms of business support, I note that all the councils have come out together to do a review of the current start-up programme. I would welcome them continuing the start-up programme across Northern Ireland. I hope that they would consider a Northern Ireland-wide business support programme. I also think that the councils should recognise the role that Invest NI plays in inward investment and that they cooperate and do not start going off in different areas in that regard.
764. **Mr Kingston:** We also mention planning in our proposal. Obviously, that cuts across the whole piece of economic development. In our paper, we suggest that thought should be given to putting some sort of KPIs around planning decisions across the board to set standards of what we expect. England works to eight weeks for simple planning and 13 weeks for complex planning: why should we not set similar targets for Northern Ireland? We propose 10 weeks in our paper, but that is a proposal. Equally, as we encourage the economic development powers that the councils have in front of them, we should also challenge them on measures and actual performance.
765. **The Chairperson (Mr McGlone):** That concludes our session. Thanks very much indeed to all of you for giving your time; it is great to see you all again, and we will keep the dialogue going. As you are probably aware, we will have a stakeholder event this afternoon, and our aim is to draft up our conclusions and share them with the relevant Departments to act as a form of that integrated approach that we were talking about. Hopefully, we will get over the line on the decision on corporation tax as well.
766. **Mr Kingston:** Let us hope so. Thank you for this opportunity to meet the Committee; we wish you well in that work.
767. **The Chairperson (Mr McGlone):** OK. Thank you.





## 21 April 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr Fearghal McKinney

### Witnesses:

Ms Carolyn Brown	<i>Federation of Small</i>
Mr Wilfred Mitchell	<i>Businesses</i>
Mr Roger Pollen	

768. **The Chairperson (Mr McGlone):** With us today are Mr Roger Pollen, head of external affairs; Mr Wilfred Mitchell, policy chairman; and Ms Carolyn Brown, policy manager. It is good to see you again. We always bump into each other somewhere along the way. Thank you very much for coming along and giving your written evidence and for attending today. Wilfred, you know the way it works here — you are a seasoned practitioner at this now — an opening statement and then questions from members. The floor is yours, Wilfred.

769. **Mr Wilfred Mitchell (Federation of Small Businesses):** Thank you, Chairman and members, for the invitation to appear here today to input into your inquiry into how to grow the economy and create jobs under, hopefully, a lower rate of corporation tax in Northern Ireland. First, I will take a few moments to outline the importance of small businesses to the Northern Ireland economy, the role of the Federation of Small Businesses (FSB) in representing the sector and our position on corporation tax. My colleagues will then comment on the other issues that, we believe, need attention to ensure the best environment for businesses to flourish.

770. Small and medium-sized enterprises (SMEs) account for 99% of private

sector business in Northern Ireland and employ over 75% of the private sector workforce. In fact, Northern Ireland has the highest concentration of small businesses in the United Kingdom. According to Office for National Statistics business population estimates, of the under 19,000 private sector enterprises here only about 140 are large companies with more than 250 employees. Together, small businesses contribute over 60% of private sector turnover here. Furthermore, 82% of Northern Ireland's gross value added is produced by small and medium-sized businesses.

771. The FSB has around 7,000 members in Northern Ireland, and it is the business owners who are the members, rather than the companies. Many of our members own several businesses, so we represent many thousands of businesses, which, in turn, employ many thousands of people — 190,000, in fact, at the start of 2014, or nearly half as many again as the 123,000 employed by large companies. There is also a tendency for large businesses to be located in Belfast, but we have over 4,000 members outside Belfast. Small businesses are located throughout Northern Ireland, in both urban and rural areas. I am conscious that some people look on small businesses with some disdain, and instead look toward large businesses as the drivers of successful economic policy. I would highlight, however, that it took only a single decision to end 800 jobs at JTI Gallaher. It would take 800 separate decisions to cause the same damage in small and micro businesses. As such, the economic role of micro and small businesses in creating employment right across all constituencies of Northern Ireland needs to be welcomed and championed; they are the backbone of the entire private sector.

772. I turn to corporation tax. To be clear, the Federation of Small Businesses lobbied long and hard for the devolution of the power to set the rate corporation tax, and we welcome the fact that the legislation has now been passed. We believe that the rate should be reduced to encourage inward investment and reinvestment by indigenous businesses, and that decisions need to be taken swiftly to set the date and the rate for the new lower tax regime, so that business can begin to plan with certainty.
773. Mr Chairman, you and the Committee will be aware that we have already provided a written submission to the inquiry, and in that document we addressed three main areas: the cost of doing business; skills and education; and access to finance. In summary, the areas that we urge your Committee to focus on are business rates; employment law; skills and training; energy; red tape and regulations; finance and access to finance; planning; procurement; infrastructure, both for business in general, including broadband, transport, gas and electricity networks, and for tourism in particular; and, finally, business support.
774. That outlines our contribution. I now ask Carolyn to take you through some of the issues that we would like to highlight, such as rates, employment law, and skills and training. Roger will follow on energy, regulation and access to finance.
775. **Ms Carolyn Brown (Federation of Small Businesses):** Thank you very much, Wilfred. Chairman, I will very briefly expand on some of the themes from our written submission. I will focus on rates, employment law and business support. These are each very complex issues in their own right, and I will only speak briefly on each at the moment. I will be happy to answer any questions afterwards.
776. I start with rates, and remind you that rates have a disproportionate impact on small businesses. They can be the third largest cost for a small business after employment costs and rent. It is the only business tax that does not take account of trading and economic conditions at the time. Rates do not take account of a business's ability to pay, and we are therefore very pleased that the small business rates relief scheme has been extended to this year; but we emphasise the need for a continuing system until at least the planned review, in which we want to take a very active part. We believe that the rates system is fundamentally flawed and needs to be fundamentally reviewed, and we would like there to be a sea change. We think that there are a couple of options, but we do not yet know which is most appropriate. One option is to base rates on profits or turnover, taking into account the economic health of the business; another possibility is to exempt small businesses altogether. If you exempted small businesses, you would lose a very small amount of the full rates take, so that is a possibility that we are going to look into in more depth.
777. Several small businesses have suffered a great deal from the recent changes — the changes that have taken place this year — between rates convergence and revaluation. Some of our members have experienced rises of 75%, 100% or 150% in their rates bills. Some have been taken through the rates threshold and are not therefore getting small business rates relief. These are small businesses which happen to be in larger premises. The small business rates relief system, we acknowledge, has its flaws: it is not necessarily the best system, but it is there. It has helped a lot of businesses during the past five years, and we would like to see it retained until something else comes along. We are going to look at that further.
778. I will say a couple of sentences on employment law. Micro and small businesses see employment legislation as a major barrier to growth. Up to a third of our members, which is quite a large proportion, tell us that they have decided not to employ anybody,

because they are so concerned about the business risk of taking on employees. That is huge potential for expanding employment and reducing unemployment by taking out of the equation the small business sector, which, as I say, is the largest in Northern Ireland. There are 27,000 businesses in Northern Ireland employing between one and nine people, and if they all took on one more person, think what that could do to the unemployment statistics. That is the scale we are looking at.

779. We took a very active part in the employment law review, and were delighted to do so. The resulting recommendations were not all that we wanted, but we were pleased to see them. We are therefore quite disappointed that it has not progressed at all. We believe that the Bill is in draft. If there is one thing that I would urge the Committee to do, it is to support the employment law Bill, because that is a stress on small businesses; that is what is affecting their ability to expand and grow.
780. We believe that there should be a review of the business support system. I am not going to say that there is not enough business support out there. It is quite the opposite: there is rather a lot. Back in 2008, when RSM McClure Watters did a report for Invest NI, it found over 200 sources of business support in Northern Ireland. That is just far too many for a small business, which does not have the time to research what might be suitable or what they need. There needs to be a simplification and a convergence of business support, and it needs to be appropriate for the small and micro business, as well as for those that want to grow. Focusing on export and innovation is great and necessary, but not all businesses feel that they need that support at the moment. They might need more basic support, and they do not necessarily know where to look. There needs to be a promotion of business support, and it needs to be simplified and accessible. We would like to see a network of small business advice centres throughout Northern

Ireland, where a small business owner could go in, talk about their business, ask someone what support is out there, what training is available or what they should do. It would cover everything they need to know from training employees and taking on employees to tendering for a procurement exercise — a one-stop shop, as I say, where they can talk to somebody face to face about their business and, through that process, identify the sort of business support that they need. That will encourage expansion and growth in the small business sector.

781. Finally, I do not need to say very much, I hope, about the skills and education sector; I will just give it a quick mention. We are very concerned about the budget cuts to the skills and education sector. Skills are absolutely vital, both for the growth of the small business sector and for incoming foreign direct investment. It will not come if the skills and labour are not there for it. That needs to be addressed quite urgently as well. That is me for now.
782. **Mr Roger Pollen (Federation of Small Businesses):** Thank you very much. The first thing to say is that we very much welcome this inquiry. The corporation tax powers are something that we have lobbied for. There has been some unanimity of purpose throughout the political parties and businesses on this one. What you are looking at around that — the other things — makes for a very welcome inquiry.
783. I spent yesterday in London with colleagues from the FSB in Scotland, Wales and England. The Administrations in each of those areas is grappling with similar problems to ourselves and everybody is trying to find appropriate solutions for their patch. Here, with the Bill becoming an Act for corporation tax powers, we have seen Northern Ireland get a huge advantage over all of those colleagues. They have not quite seen the potential of it yet, because we have not done anything with it yet, but a unique opportunity is starting to emerge for us to position ourselves differently and compete differently. It will help us

- to overcome some of the disadvantages that we have historically laboured under.
784. We need to go much further than corporation tax powers alone to differentiate ourselves, which is the purpose of what you are looking at. In our written submission we have highlighted quite a lot of the areas in more detail, but what I wanted to speak about in particular was regulation and energy, because these are two of the things coming across that our members repeatedly tell us are, in so many ways, barriers to their trade.
785. A very good piece of work that we were privileged to be involved in was the first innovation lab, set up by the Department of Finance and Personnel to look at regulation and how it happens. A panel of experts was brought together and various expert witnesses were put in front of it. It produced a very good report, and one of the interesting things coming out of the workings of that was the lack of clarity over what regulation is. To some people it was very clear what the process was, but to businesses regulation is just anything that gets in the way of doing business. That report produced quite a lot of interesting findings, but what we identified is a real sense of a need for a robust culture of policy development. At the moment, an awful lot of policy seems to come out. There is no limit to it and no regulatory budget. We have no idea of the cost of all of the regulation that emerges from Stormont and, increasingly, from the councils. There is no quantification of the cost of that regulatory burden, and there seems to be no effort to use the power of the Assembly and councils to reduce the regulatory burden. There is a real opportunity. I know that across in Westminster and Whitehall they have the slogans “one in, one out” and “one in, two out”. When we looked at this more closely it became clearer that it was not just a single regulation in and a single one out. It was a regulatory pound of cost to business in, and you had to take one out. There is an opportunity for yourselves to take a lead on changing the culture of the amount of regulation
- that is put in the way of doing business in Northern Ireland.
786. It is always easier to test these things with real-life examples. One that we spotted in FSB in Northern Ireland was something coming from Europe, and then through into Whitehall, with a devolved impact. That was a proposal to introduce an MOT-type test for trailers. That seems innocuous enough, except that we realised that that would require a register of trailers to be maintained, since there currently is not one. There is a vast cost to that. When we then dug into it from our perspective in Northern Ireland, looking at the importance of agriculture to our economy, we found it was going to encompass every trailed implement. Suddenly you can see the potential impact on Northern Ireland of a piece of regulation that started somewhere far off, many years ago, and is gradually working its way through. There is an opportunity there for the Assembly. If a regulation like that has come through, we need to ask what we can do to reduce the cost to business in the areas that are under our control, and use the Assembly as a really dynamic tool on behalf of business, rather than to keep adding to the regulatory burden without considering the impacts of it. You may want to come back on that.
787. The other one I wanted to flag up was the cost of energy and the whole energy market. I know you have done several big pieces of work on that, and I do not want to overlap with those too much other than to say that our membership includes producers of energy, as well as users. There is great dissatisfaction about the ability to contribute into the system if you are creating energy. There is a great lack of clarity about what it will cost to connect to the grid, why it should cost that, what might be covered by that cost and so on. There is also great dissatisfaction with the notion of a single electricity market without the reality of a connection between north and south markets.
788. The security of supply issue is one that you have touched on in some detail. What we will look at is the fact that,

so far, it is six years since the North/South interconnector was proposed, and planning permission applied for. There is no sense that that is making a difference to either the security of the supply or the cost of electricity for our members. There are projections that, if that project were expedited, it could reduce electricity costs in Northern Ireland by up to £20 million. That would obviously benefit business here, but it is not happening.

789. I suppose the message from both of those is the sense that we need to get to decisions more quickly, to get to better decisions, and to use the power of the establishment to work with business, rather than the current perception that it is often creating barriers to stop business.
790. I will stop there for the moment.
791. **Mr Mitchell:** Do you want to touch on finance and access to finance?
792. **Mr Pollen:** Access to finance is one of the things that is such a huge area that there have been some measures taken by the Department, and through Invest NI, to put in place access to funding for small business. Having failed at every other potential area of getting access to finance, at least there was some kind of safety net there, which, while very welcome, served to illustrate the problems that there were further upstream.
793. One of the simplest things that we would urge, which is probably within the influence of Stormont — if not within its power — is to encourage the banks to look at maintaining the branch network, which our members identify as being very important to them. The banks, coming under pressure from different areas, see an opportunity to reduce service provided through a bricks-and-mortar presence and to move online. That is not helpful. Back to the point that Carolyn made about the sources of advice: the bank has historically been one of those sources, and if you remove that provision you are inevitably going to find that the provision will be removed in

the more remote rural areas, where our members — as Wilfred identified — are a key part of the employment fabric of those communities.

794. **The Chairperson (Mr McGlone):** Thank you very much for that. One of the things that you were bringing us to, Roger, was the need for decisions to be made quickly and efficiently. That is a theme that has been running, from different sources, right through the inquiry. If you were to make recommendations in the context of the reduction of corporation tax or, indeed, other contexts on how there could be a more integrated, strategic approach by government to effective and efficient decision-making, what would those recommendations be?
795. **Mr Pollen:** We were all quite enthused when the Programme for Government came out and said it was putting the economy at the heart of it. The reality of that, however, seemed to be somewhat different. There is a big vision, but it is almost too big, so it can mean anything to anybody within there. We need to start to get a really serious grasp on how to get government out of the way of business. To do that, we need to have business more tightly linked to government, not actually into the process of government but informing government much more closely. In America you have the Small Business Administration, which sits in there and is able to make sure that policy is considered in advance of decisions being taken.
796. **Mr Mitchell:** We went on a visit to Washington five or six years ago — seven now, I think. We met the Small Business Administration, which is largely government-run. For example, when Obama takes up his position, he puts someone in charge of the Small Business Administration to carry out his business manifesto, which he agreed prior to taking up office. That means that it cannot be derailed during his time, and it is therefore more consistent. That is very helpful to small businesses. They help small businesses and take them by the hand through the regulations. If the regulations present more difficulties,

- they will go to the ombudsman on behalf of small businesses and pay for that. So, those are models that are working in America to carry out what has been agreed prior to taking up position.
797. **The Chairperson (Mr McGlone):** I know that the American structure is a good bit different from ours, but how do you see a model such as that impacting on the decisions of various Departments in a cross-departmental way? In other words, how would something akin to that work here?
798. **Mr Mitchell:** We would need perhaps not a manifesto but an agreed plan beforehand, because once you start implementing, that is when issues arise. You need to have things agreed beforehand and overcome the issues together.
799. **The Chairperson (Mr McGlone):** Do you have any idea how a model like that would work here? We have endless consultations going on around the place on endless documents, and we are probably going to hear about another one later today around grade A office accommodation. You are talking about something that says to Departments, “This is how you do it. You need to do it this way. This is how we see you doing it.” With the best will in the world, you could have an organisation set up like that, and there are probably a number of organisations out there saying that they advise government and the Executive. Advice is one thing, but it can readily be put on the long finger, discarded, or whatever. You are talking about a body that, in effect, cannot be ignored, has to be acknowledged and recognised; and more than that, its recommendations must be acted upon, and that it is agreed with following the election of an Executive. Is that what you are talking about? Is that how it works?
800. **Mr Mitchell:** Going back to the small business administration; this is something that has been handed by Obama and his party to small businesses. It is government appointed, and is carrying this out on their behalf.
801. **The Chairperson (Mr McGlone):** So, if you like, it is Invest NI-plus.
802. **Mr Mitchell:** Yes. If we blur the areas of Invest, where it could be more involved in the private sector, then that would be a big advantage because it has more of a global view of businesses.
803. **The Chairperson (Mr McGlone):** So, you are talking about a body that has a cross-departmental range of responsibilities and, more importantly, activities. It is not just a consultee body.
804. **Mr Mitchell:** Yes.
805. **The Chairperson (Mr McGlone):** How does that fit in with the Government — the Executive, in this instance? How would you see it working through?
806. **Mr Mitchell:** I think we are tip-toeing a little bit into the private sector and the reduction of the public sector, in a sense. We should be seen as contributing together and not as a “them and us” with different conditions. The public sector should be rewarded the same as the private sector if it is successful in that area. This is what I mean about blurring the edges, so that we may not have the same brain drain of people who are highly qualified and gifted and who do not come back home when they get their qualifications somewhere else. We maintain that ability at home, by blurring the edges between public and private. Invest Northern Ireland would probably be one of the best examples to start with.
807. **The Chairperson (Mr McGlone):** If you have some modelling, or concept, that you want to provide to us, that would be very helpful to us in formulating where we are going with this inquiry.
808. There was something else you touched on, Roger, and that was EU regulation. There are two things about that. When we are out and about we find that EU regulation and how it is defined and interpreted by nation states can vary across Europe. In the North, there could be a definition or interpretation of “trailers”, but if you go a few miles down the road, they might say, “Don’t worry

- about that". In other words, do we have to stop taking as read what has been handed down to us by what some civil servants take as an edict and say, "Let's have a look at this and see how we can best interpret it that will not influence what business is about in a negative way".
809. **Mr Mitchell:** Ten years ago, the FSB had a booklet out on gold-plating. That is what we are referring to. Northern Ireland seems to dot the i's and cross the t's more than its EU competitors. We seem to get the short straw when it comes to being effective when competing with businesses. I will let Roger come in.
810. **Mr Pollen:** The independent review of economic policy recommended that there be a Department of the Economy, and that is starting to be adopted. We think that will provide a lot of solutions to a lot of problems. There is a sense that we take a gold-plating approach to regulation, and possibly with the creation of that Department of the Economy, you might start to see a spirit in which the entire Executive are challenging regulations and working alongside business to see how we can implement regulations in the way that will have least impact, rather than in a way that will show that we have done so absolutely perfectly. It is that difference of mindset — the glass half-full towards business, rather than half-empty towards extra regulation.
811. Mr Chairman, I accept that this was from your own party, but I will highlight an illustration of the need to be very careful about regulation. The plastic bag levy is regarded by many as being a very successful piece of regulation; but it set out to achieve two things, and to our mind that causes confusion. It set out to change behaviour, but it also set out to raise revenue. Therefore, from the point of view of businesses, it cannot be a very satisfactory piece of regulation because it will fail on one measure or the other, or only partially achieve both. It is a slightly unfair one to pull out, but it illustrates the need to be very clear about why we need to regulate, and, if we do regulate, how we can do so in a way that achieves the objective and does not create other, unintended, consequences and distortions of markets.
812. **The Chairperson (Mr McGlone):** Finally — and then I will open up the meeting to members — I will raise the whole question of Europe, which, obviously, we are all fighting about on the doorsteps at the moment. I represent a pretty big rural constituency, and a lot of issues are coming back, not least from farmers and the farming community, about jeopardising single farm payments if we were to pull out of Europe. Has the FSB got — the issue came up with other organisations, including the Northern Ireland Chamber of Commerce and Industry last week — a considered view on Brexit? The Committee has also had a research paper done on that.
813. **Mr Pollen:** Just going back slightly; the first thing I would say is that the FSB took extraordinary care in Scotland not to have a formal position on the issue, but to inform the debate. Its members are from all sides of the debate, so it brought facts to help people actually evaluate the arguments that were being put forward on the basis of hard facts, rather than on heartfelt wishes or emotive arguments. The intention is to approach any EU referendum debate in the same way. We recognise that our membership is divided and that people join us because they are in business and not because of their politics. We want to strive to ensure that any impacts of a process like that would be properly informed with facts, and we would not take a firmer position than that.
814. **The Chairperson (Mr McGlone):** We have established that from 2007 to 2013, £2.4 billion came into the local economy. To jeopardise that and increase red tape through customs would not, based on the members of your organisation and business people whom I know, be a route they would like to go down. Maybe that is presumptuous on my part.

815. **Mr Mitchell:** We took in much less in the previous period compared to the Republic of Ireland and so were disadvantaged: there are a lot of different angles to look at this from.
816. **The Chairperson (Mr McGlone):** I appreciate that you do not have a considered view, and I respect that.
817. **Mr McKinney:** I will just dive into a sub-area of energy, which I think will be touched on elsewhere, and ask about the training you are talking about, specifically training for gas engineers. How do you see that advantaging us? This is the training for gas engineers and boiler installers. It is a bit specific, but it is something that could be going on now, and I will deal with it in the wider apprenticeship context.
818. **Ms Brown:** We have a lack of skills in that area. Wilfred, you mentioned a business in the west — was it Dale Farm? It is a dairy, anyway. It is looking to connect to the gas network, and there are simply not the engineers to carry out the work. It is terrible that this is being held back because of a lack of skills.
819. **Mr Mitchell:** They had to bring people in from overseas to carry out the work.
820. **Mr McKinney:** What does that tell you about joined-up government, when they have firm knowledge that the gas network is coming here?
821. **Ms Brown:** We need more joined-up thinking, obviously. We need all the strategies, and even all the actions, to be considered by all the Departments that they affect, because a decision on skills can affect infrastructure.
822. **Mr McKinney:** Roughly, in your estimation, how many people could be employed locally if we were to embrace that wholly, or if we had embraced it wholly?
823. **Ms Brown:** A couple of hundred, I would say.
824. **Mr Mitchell:** Yes, and if you brought it out to the whole energy field, it would keep multiplying. Not only that, globally we need to be ahead of the game in order to be experts in that area.
825. **Mr McKinney:** What is your understanding of the further emerging businesses that we could benefit from and where apprenticeships should be introduced now?
826. **Mr Pollen:** In some ways you are —
827. **Mr McKinney:** I am referring to the wider apprenticeship structure. You say that school-leavers must be better prepared for the workplace and that better apprenticeships should be in place. What should those apprenticeships be, if you like, and what are the businesses that we need to look towards?
828. **Ms Brown:** We need more people with technical skills, such as engineers, who can connect gas networks. We also need people who are qualified in science, technology, engineering and mathematics (STEM), who can take forward IT infrastructure; because, although we have very good broadband compared to some other nations in the UK, we still have many gaps. We need to work on fixing them, especially when wider government is looking for more and more transactions and activities to be undertaken electronically. We do not necessarily have the engineers to do that.
829. I hardly need to say that companies like Harland and Wolff and Shorts need engineers and STEM graduates. Instead of bringing people in, we should be providing that labour ourselves, when we have such a high level of unemployment. That will be a selling point when it comes to attracting foreign direct investment. We will get people to bring more business here if we have the correct skills.
830. **Mr Pollen:** I go back to the point that there was an expectation in 2009 that there would be a new 400 kV overhead link with the Republic. Businesses might then have quite reasonably started thinking, “OK, we will now engage with the Department of Employment and Learning to develop some apprenticeships. We will invest



- in our workforce, so that we are ready to bid for that successfully". Six years on, would that have been regarded as a good investment? We still do not have clarity about the timescale. It goes back to the point that, unless the business community has confidence that decision-making at the high strategic level is happening fairly quickly and with the might of the Assembly and the Executive behind it, the workforce will always be out of step with opportunity.
831. **Mr Mitchell:** To get into the higher level of employment, we need to recognise that technology is there and is changing and that you need to have a lifelong-learning attitude. It is not like it was in the past, when you learnt a trade and that was that. We need to have the expectation that things will change and will have to be monitored constantly and that people will have to be qualified accordingly throughout their lifetime.
832. **Mr McKinney:** What confidence do you have that those conversations are taking place? I appreciate what you are saying that, on the one hand, if we had done all that training, would people have been able to get the jobs; yet, on the other hand, we did not do the training and people have potentially lost opportunities in the gas industry. What confidence do you have that the conversations are taking place, with sufficient ambition and realistic prospects, in terms of emerging industries? There is now going to be research in 2015 about future industries: is that research now too late?
833. **Mr Pollen:** I do not think that it is ever too late to have more knowledge added to your decision-making processes, so I would not say that it is too late. However, other things might have happened had research been carried out earlier into market scoping and alignment with opportunities and needs.
834. **Mr McKinney:** What mechanisms would allow small businesses to identify opportunities and links into those apprenticeships? Your example was that if everybody took on one person, it would enormously advantage employment here. Where are the strategic conversations taking place to ensure that businesses like yours or those you represent will take those decisions?
835. **Ms Brown:** That is another issue. There needs to be better communication between organisations such as Invest NI, enterprise agencies and councils, and their small business constituencies.
836. **Mr Mitchell:** Following on from that, we would like to see people moving on as entrepreneurs and setting up their own businesses. That should be facilitated in the early stages of education programmes so that it does not come as a surprise later in life when they have to find out the basic needs when setting up a small business. Instead, they could use their expertise and knowledge to become entrepreneurs and it would flow more smoothly.
837. If you compare us to other countries, you can see that the expectations of young school-leavers is not to move into setting up their own businesses. This is an area that we need to address.
838. **Mr McKinney:** Undoubtedly, there is a gap for business, a gap for government and a gap strategically. Do you agree?
839. **Mr Mitchell:** There needs to be synchronisation.
840. **Mr McKinney:** I will move back to the non-domestic rates issue. Clearly, it is of concern, and the change in the non-domestic rate and the revaluations have had an impact. However, while it has had an impact, you are saying that uncertainty remains. Surely certainty is now there, even if it is bad news. You refer to uncertainty. Where does that remain?
841. **Ms Brown:** There is uncertainty because we have a rate relief scheme that is going to end. We welcome a planned review of the rating system, but that will bring about some uncertainty. Small businesses here are suffering from shock at the moment due to the rise in their rates.

842. We need a system that is appropriate and relevant to small businesses. They are anticipating further rises now that they have experienced this one. That is the nature of small businesses: when they see a rise, they think it might happen again and again.
843. So, we want fundamental reform of the rating system, not tweaking around the edges. We want the rate relief scheme retained until such time as it can be bettered. We need a better system, a sea change.
844. **Mr Mitchell:** It needs to be affordable, and that needs to be quantified.
845. **Mr McKinney:** What types of business decisions are being affected by the recent increases? Are people being laid off? Are you getting a comprehensive picture in that regard?
846. **Ms Brown:** It is too early to say given the short time since people received the current round of rates bills, but several members have contacted me to say that they cannot stay in business. That is their initial reaction. We will have to monitor this and see what happens, but that is the impact it is having on them, where the rates bill has been doubled. It is already a very large proportion of their outgoings, and they think it is going to impact on their survival. If some are thinking that, others are thinking that it will impact on their plans for growth and expansion. It is a very serious issue in the small business sector.
847. **Mr McKinney:** Are you getting information about the effect it will have on businesses potentially coming into Northern Ireland and setting up here?
848. **Ms Brown:** It would be one of the costs they would consider.
849. **Mr Flanagan:** I want to stay on the issue of non-domestic rates for a moment. Do you believe that the current system is fair?
850. **Ms Brown:** It is not necessarily fair. It is what it is, and it has been in place for a long time. It is based on property size rather than business size and that, in itself, produces some unfairness.
851. **Mr Flanagan:** Do you have a better alternative?
852. **Ms Brown:** We are looking at alternatives and thinking about options, but all of them have advantages and disadvantages: that is the problem. So, we need to think about the best way forward. A lot of small businesses believe that the rate should be based on their ability to pay, which should take into account their profitability, their turnover or the actual nature of the business. We recognise that that is going to bring some complexities into the administration of the system. It has advantages and disadvantages, but there must be a way forward on that. We are looking at it very closely.
853. We are also looking at the option of bringing a proportion of small businesses out of the rating system altogether, because the majority of the rates take is from larger businesses. That would be a fairly small proportion of the overall rates revenue. You could take a large proportion of small businesses out of the rating system without making too much of an impact on it. I do not have figures for that at the moment; we will be looking into that.
854. **Mr Flanagan:** Have you met the Finance Minister about this yet? It is my understanding that he seems to be fairly reluctant to meet business representatives about this issue.
855. **Ms Brown:** We have met representatives of Land and Property Services and the rating policy division.
856. **Mr Flanagan:** It is an issue that is exercising an awful lot of businesses in Fermanagh, particularly among people who own shops with filling stations attached to them or those who run pubs. The way that filling stations and pubs operate is not based on property value but on revenue and turnover, and the levels of profit on beverages and fuel are very low.

857. These business owners have experienced a disproportionate impact on their income and on the level of rates they have to pay. Some bills have gone up by £1,000 over the year and some by £12,000 or £15,000. It means that they are going to have to lay off staff or reduce their hours, otherwise it is not going to be financially viable for them to stay in business.
858. An awful lot of people feel a deep sense of injustice because the unfairness in the current system means that their rates can double overnight. There is no form of transitional relief, nor is there any help or guidance given to those businesses. They simply get a letter with the bill for the year, telling them that there is no change in the level of services they will get, and they are deeply frustrated by it.
859. **Ms Brown:** That is what we are hearing too.
860. **Mr Mitchell:** That is our concern.
861. **Ms Brown:** That is definitely what we are hearing and it is why we are very concerned about it. We have had to accept the current system, but we lobbied and got the small business rate relief system, which does not affect some of the members you are talking about, Phil. That is why it is unfair and not right. The fact that it is automatic and that people receive a discount at source makes it easy to administer and means that a lot of small businesses have received relief but quite a large proportion of businesses do not receive it. As well as the types of businesses you are talking about, those such as car dealers or furniture retailers need large amounts of property space but do not necessarily qualify for relief even though they may be small businesses with small turnovers.
862. **Mr Flanagan:** There has to be a huge inaccuracy in some of these rates calculations. Look at some of the property values. Land and Property Services told the owners of a small restaurant in Belcoo that they could rent out the property for £20,000 a year. However, they are saying that if they could get £20,000 a year to rent the place out they would do it, because they would make more doing that than they are making at the moment. It is a completely flawed system and it needs to be updated.
863. **Ms Brown:** All we can do at the moment is encourage our members, when they contact us, to contact LPS and appeal for a revaluation. We were in close contact with Land and Property Services in the run-up to the revaluation. We supported the revaluation; it has been 12 years since the last one. One of the things we would like to see in the rating system is more frequent valuations so that these big shocks do not occur.
864. **Mr Flanagan:** Of course, in the Minister's defence, he is saying that this should have happened years ago and that people have missed out on paying increased rates over a number of years, which would not have happened if the revaluation had taken place sooner.
865. I want to take you on to the issue of regional imbalance. There was a commitment in the Programme for Government 2011-15 that the Executive would do more to tackle regional imbalance. Do you think that Invest NI should be set subregional targets for the jobs it creates, the jobs it helps to create and where they are created?
866. **Ms Brown:** I do not know about regional targets, but there should be targets for increasing the number and growth of small businesses. One of the things that the independent review of economic policy recommended was that there should be a small business division or a department of Invest NI specifically set up to do just that. That would, therefore, target rural areas, not just Belfast and the main cities and towns.
867. **Mr Mitchell:** As far as I remember, Richard Barnett carried out a review, one of the recommendations of which was that a small business forum would be set up. That has not happened.
868. **Mr Flanagan:** Are you supportive of subregional targets?

869. **Mr Pollen:** The risk with subregional interventions is creating a playing field that is not equal and not even for all businesses to play on. We have reservations over it. I think that one of the illustrations of this is that, with the change to the new super-councils, we have concerns that you could start finding, for example, planning policies in neighbouring councils very different to navigate. You could have businesses in one area where people can sail straight through, get planning permission, move on and progress their business, which is welcome, but, at a different level, another council, for other reasons, could have a very different system in place. When you start to go into subregional policies, there is the risk of distortion. That may be welcome in some places but usually because it is penalising and not advantaging somebody else.
870. **Mr Flanagan:** There is already distortion, Roger. In the financial year that the G8 meeting took place in Fermanagh, £92 million was spent in hosting that. Invest NI brought three companies to Fermanagh to consider locating there. So, there is already distortion in the market, where the vast majority of companies are being brought to Belfast to be encouraged to invest there and are not being taken anywhere else. We need to take proactive action to address that historical and current imbalance.
871. **Mr Mitchell:** We support that, because our membership is throughout the whole of Northern Ireland.
872. **Mr Flanagan:** I appreciate that.
873. Do you accept that paying workers a living wage has an overall positive impact on the economy and on society?
874. **Mr Pollen:** Yes.
875. **Ms Brown:** The short answer to that is yes. We are supportive of the living wage. We believe that the more businesses that offer the living wage the better. What we do not want to see is that it is made mandatory in Northern Ireland at this time. Most of our members, over 70% I think, already offer a living wage or higher. Our small businesses tell us that they will offer a living wage as soon as they are able to do so and as much as they can because they value their staff. It is their ambition to do so. As we generally believe in the less government intervention the better, we believe that more small businesses will do that on a voluntary basis.
876. **Mr Flanagan:** Of the 70% of your members who pay a living wage, is there anything that you can do to encourage them to become accredited with the Living Wage Foundation to encourage other employers to opt for paying a living wage? If you do not want to go down the regulatory road, how can we all work together to encourage more employers to pay a living wage?
877. **Ms Brown:** The best thing we can do is to encourage the small business sector to survive and grow. When a small business reaches the point where it can reward its staff, pay them a living wage and support a number of members of its local community, that is exactly what it will do.
878. **Mr Flanagan:** Will you encourage them to become accredited?
879. **Ms Brown:** You need to provide the situation and the climate where a small business can and will do what it wants to do, which is pay its staff a living wage and higher.
880. **Mr Flanagan:** Will you encourage your members who already pay the living wage to become accredited and to showcase the benefits of paying a living wage?
881. **Mr Pollen:** I do not think that we have a policy of encouraging members to do things of that sort. To a certain extent, it is their choice, and we do not want to set up artificial divisions between members.
882. **Mr Flanagan:** Do you encourage your members to participate in programmes like Investors in People?
883. **Mr Pollen:** No.
884. **Mr Flanagan:** You do not get involved in that type of thing at all.

885. **Mr Pollen:** Businesses will choose to do it or choose not to do it as they see appropriate. It is not for us to encourage them to do it.
886. **Ms Brown:** We provide information to our members. We give them links so that they can then find out how to get accredited with Investors in People.
887. **Mr Mitchell:** Our aim is to provide the best environment for them in which to operate and improve.
888. **The Chairperson (Mr McGlone):** Thanks very much for that. I am anxious for us to not move into the realm of the Finance and Personnel Committee, but, Gordon, you wanted to raise some issues about rates. We will then move on to your other questions.
889. **Mr Dunne:** I understand that a major review of rates is pending, is that right?
890. **Ms Brown:** So we believe, yes.
891. **Mr Dunne:** It is important that you have an input to that. I know you well, and we appreciate your contribution today. That is a major issue, certainly in North Down, which I represent. The big frustration is that towns and villages like Holywood, which are doing well, are being penalised, while places like Bangor, which is struggling, is finding it difficult and has major problems, will mostly not see the same impact with the rates bill as those places that are doing well. So, places that are doing well, are enterprising and are trying to develop are being penalised. I think that that is a major issue that needs to be looked at. We certainly support your comments.
892. Basically, at the moment, are rates assessed against the rentable value?
893. **Ms Brown:** So we understand. I am not an expert property valuations —
894. **Mr Dunne:** Neither am I.
895. **Ms Brown:** — but that is my understanding from LPS.
896. **Mr Dunne:** You are up to speed. That is right. I think that we have all been in contact with LPS in recent days about it. It works on the rentable value and is very subjective.
897. You talked about the need for small business advice centres. How does that fit in with the local enterprise agencies that already exist? Do you think that there is more work to be done? The role of the new councils will obviously be a major factor, so it is an opportune time to see change. Maybe you could elaborate a bit more on what you want to see from the agencies.
898. **Ms Brown:** The enterprise agencies are one source of business advice, as are the councils, Invest NI and the further education colleges and universities. There is a vast array of sources. The first problem for a small business owner is deciding which of those institutions to go to.
899. **Mr Mitchell:** We are proposing a one-stop-shop.
900. **Ms Brown:** Yes. We see a small business advice centre network as a one-stop-shop not unlike citizens advice bureaux or tourism offices. I am not saying that those are specific models, but you find them in every town centre, if you like. We want something that is clear, obvious and branded and that a small business owner can go into. They may not know that about the centres, because, as you will appreciate, small business owners are very focused on their businesses. I remember a quote from a member who said that they were too busy working at working to do the research on the Internet. If they could walk into a centre somewhere and talk to somebody face to face, as we are talking now, they could say, “Here is where my business is at the moment. What can I do to expand? How can I tender for a government contract? What can I do to increase my staff’s productivity? How can I move forward?” They could sit down with somebody and have an hour’s conversation and get some pointers. Even then, they would not necessarily get the full range of advice, but they would know who to talk to in a more specific way.

901. **Mr Dunne:** Do you feel that there are weaknesses in what exists? A lot of councils would contend that they are already doing that through the business agencies, yet I take it that you feel there are gaps.
902. **Ms Brown:** We feel that there are still gaps. One of those gaps is that small businesses are not aware of what they should do and who they should see. We are finding that, when small businesses go to any of those sources of advice, they come back with positive perceptions of it. They get helpful advice and information, and they move forward. We need to get them in there in the first place and encourage them to think about using business support, taking advice and moving forward. Some councils — in fact, all the councils — provide very good programmes for small businesses.
903. **Mr Dunne:** Yes, that is right. A lot of training and advice is offered, and they run programmes.
904. **Ms Brown:** Yes. We just need to get people on the way to going to the centres. If they hear about a council scheme, they might also hear about something that their local college network is running. So, which one should they go to?
905. **Mr Dunne:** So, there is work to be done, you reckon.
906. **Ms Brown:** Yes. We think that there is work to be done and that more could be done to promote and encourage businesses to take up support and to use it.
907. **Mr Mitchell:** It all comes back to synchronisation between the different Departments.
908. **The Chairperson (Mr McGlone):** Can I just come in on that very point? You mentioned a small business unit within Invest NI. That came from the independent report. I do not want to run the risk of having parallel processes running on and doing the same thing, but how distinct do you see that small business unit within Invest NI from the one-stop-shop concept? We have been told that there is a lot of signposting to the 0800 number that people can ring in Invest NI, so I am conscious that we do not want to reinvent the wheel and just plonk it somewhere else, with people being further confused about where they can go for advice.
909. **Ms Brown:** I do not want to say anything that will commit a particular set of people to doing something specific, but for a small business unit in Invest NI, if we decide that Invest NI is the central overseeing body, it could oversee that network. However, as Wilfred said, it needs to be joined up. There needs to be communication between councils, colleges, Invest NI, DETI and DEL. There needs to be that communication, and they need to ask, “What are you offering? We are offering something the same. Why can we not just have one course that does that?”
910. **Mr Mitchell:** This would be as broad as planning and developing your business while considering the time factors that are involved. It is a total picture of what that particular business needs. You might move into a specialism after that.
911. **Mr Pollen:** It seems to me that the objective is to try to get a relatively uniform, identifiable, recognisable, prominent place that businesses know they can go to so that they can access all the services that are already there — Invest NI, the councils, enterprise agencies and so on — and that will give them a clear portal to get to that and direct them towards the sources of support.
912. We in the FSB did some work on the councils’ payment and procurement practices. That highlighted some extremely patchy performance. There were some exemplary councils. Cookstown council and Newtownabbey Borough Council did a lot of local procurement from small businesses and paid their invoices promptly. Others were much less good. Part of the advantage of sowing small business advice centres in every area is that it will raise the visibility of the importance of small

- business to each of those areas. For instance, when we did that research, it turned out that barely half the councils had a procurement officer. In fact, I think that it was just under half the councils. For something as fundamental and important as that, they did not have somebody who was specifically tasked with procuring and assisting procurement in their area. Therefore, you get a lot of wasted opportunity. This might give a focus to that sort of initiative as well, without any duplication or increase of provision. It is simply a better channelling of it.
913. **The Chairperson (Mr McGlone):** Gordon, that was on the back of your question.
914. **Mr Dunne:** I think that most of the other stuff on training has been covered. Thanks, Chair. Thanks very much, folks.
915. **The Chairperson (Mr McGlone):** Are you happy with the school-leaver stuff?
916. **Mr Dunne:** Yes. I think that has been covered. Fearghal was asking about it, so I think he covered everything.
917. **Mr Frew:** Thank you very much for your answers so far. I will take you back to planning: have you attended any planning committees yet?
918. **Mr Pollen:** The new planning committees?
919. **Mr Frew:** Yes.
920. **Mr Pollen:** No.
921. **Mr Frew:** I have, and I was representing an interested party. I will quote from your report:
- “it is imperative that the process is smooth, clear, timely and efficient and offers good value for money.”*
922. Those are all the buzzwords that you can have, but I would worry. You could add “messy” and “risky”. It would be unfair to name the council, but I will leave you guessing, as I represent two council areas. It seemed that it would be much less accountable and that Planning Service has basically usurped the council. Councillors around that body will be given a report in five minutes in a public meeting. They will be shown pictures, and people will be asked to speak for between three and 10 minutes to represent a certain argument. They will then have to make a decision there and then. If they go against the Planning Service’s advice, they need a very good reason or it will end up in court. It happens in a public meeting, but it could well become less transparent and certainly more messy and less accountable. What are your thoughts on councils gaining responsibility for planning?
923. **Mr Mitchell:** Roger implied that there needs to be consistency between the three. The time factor means that some people in certain areas, rather than in others, may find it easier to develop, so some of the new super-councils could suffer as a result of delays. However, the main thing that we are finding is the length of time of delays. If a business is starting to expand, it generally needs everything done within that year. Money may need to be left aside and everything, or inward investment may be needed. People will have left aside the money to develop within that time, so there needs to be an effort to reduce the time factor.
924. The other issue that affects the smaller business is environmental impact tests. The costs of doing those are quite prohibitive, and sometimes just that extra cost can put people off. To me, it seems quite exorbitant for a small business to pay the high cost. I am not saying that there should not be an environmental impact test, but the cost of it is starting to be prohibitive. As you said, if you are not happy and want to appeal, you are not in control of the cost or where it will end up. So, there needs to be some measure of restricting the financial aspect.
925. **Mr Frew:** I understand. In my eyes, all the requirements that they ask for, such as environmental impact assessments, have to be done before the process, whereas before, it was done during it. That, to me, is not necessarily a bad thing, and I think that the new councils’

- taking over may well speed it up. The problem that I have is in their making the right decisions and the elected bodies on a council being able to effect real change within policy. I suppose that that goes back to your consistency approach throughout the Province. If councils start developing and tweaking policy for their given area, whilst that may be a good thing for a certain area, it may well impact badly on neighbouring council areas. What is your view on that?
926. **Mr Mitchell:** I think that we need consistency among the decision makers, and there might need to be an education programme for the decision makers to deal with responsibility and accountability. You might then get a degree of consistency within the different council boundaries. The effect of a difference will be very stressful, and it will affect one area over the other.
927. **Mr Pollen:** The truth of it is that, in any walk of life — planning is a good example of that — those who decide divide. All that we are urging is that they get to the decision-making process more swiftly with a fair ability to get the inputs that are needed to get there properly and to make sure that there is a good, robust decision. We recognise that decisions will be divisive — that is just their nature — but we want to make sure that the process is more manageable for small businesses so that they do not start out with some degree of trepidation with no idea of where and when it might end, what it might cost and whether they will even get the right result at the end of it.
928. **Mr Frew:** I will take you on to energy costs. Of course, that is a massive issue for all businesses in Northern Ireland, not least the large employers with an industrial and manufacturing base, although a lot of them will be small businesses, which you represent. You rightly said that Northern Ireland is clearly behind the rest of Great Britain and Ireland in the roll-out of smart metering. What benefits would smart metering have on businesses in Northern Ireland? Is that only scratching
- at the edge of what is a massive problem in energy costs?
929. **Mr Pollen:** It seems to me that all those things are scratching at the edge — I was going to say rearranging the deckchairs. Ultimately, you have to find a way of getting power more cheaply into the market, and thereafter you can look at ways of being more efficient and more clever with it, as well as at ways of being more effective at creating a market. At the moment, we have a blockage, in that we do not have enough supply running throughout the single market that has been established.
930. **Mr Mitchell:** We have heard that the cost of energy is concerning people who would consider inward investment. That is one of the single most restrictive considerations that they identified.
931. **Mr Frew:** The different networks and the wholesale prices that businesses have to pay are very confusing, and there is no doubt that renewable energy has put the cost of energy up. When a business wants to relieve itself of a high energy bill, it tries to apply for planning permission for renewable energy but is told that the state of the grid cannot take what it wants to produce. Have you been in discussions with NIE or the Utility Regulator about the state of the grid?
932. **Mr Mitchell:** We are very concerned about that, and a lot of members are lobbying us on it. My understanding is that DFP is looking to Europe to get some infrastructure funding to address that in the near future. However, “the near future” could be in four years.
933. **Mr Frew:** We get a massive amount of money from Europe for the electricity grid’s infrastructure. I think that it is £42 million.
934. **Mr Mitchell:** I think that it is about identifying and addressing access to the network. As far as I understand it, at the minute, you can pay your £3,000 or so to try to get planning permission, and then you have to pay £4,000 to apply to the grid. You then discover that you cannot go on to the grid and that,



at the moment, nobody is dealing with that block on the ground. It seems crazy for somebody who is trying to develop on renewable energies, for example, to spend that money while not knowing the potential outcome.

935. **Mr Frew:** The Minister has called a summit, if you like, of all the major players and the problem-makers, as I call them. We cannot really ask NIE to put a line up to every cliff edge and every nook and cranny of Northern Ireland, so it has to be strategic.

*(The Deputy Chairperson [Mr Flanagan] in the Chair)*

936. **Mr Mitchell:** We are clearly in competition in a global market now. That is the change for Northern Ireland compared with 20 years ago or whatever. There is a completely different scene, and, if we have high energy costs to produce something, right away we are completely disadvantaged compared with our competitors. You would think that that should be an urgent concern.
937. **Mr Frew:** You certainly have a sympathetic ear here when it comes to energy prices. You mentioned the single electricity market, and we are now advancing into what is called the integrated single electricity market or ISEM. There are certain fears about that, because when any player in this problem makes a move, it seems to inevitably put the price up either directly or indirectly, which then penalises business even more. It seems that the security of supply is sorted. We had to pay for it, and when the North/South interconnector comes on board, that will also relieve pressure on security of supply. What do you know of the ISEM, and what fears do you have about it?
938. **Mr Pollen:** Truthfully, you have carried out deeper inquiries into that than we have, so I do not think that I will add to your existing knowledge of that specific issue. All I will say is that security of supply has been addressed temporarily, as I understand it. There is further regulation from Europe that will cause further restriction of the existing fossil

fuel capacity. There is a solution to it, which is the interconnector. It has been in the offing for years now, and it is a question of what it will take to get that decision advanced to the point where it is the solution, rather than the patches that have been put in place to date. We see an end date by which action will have to be taken on one front, and we are not seeing an end date to action being taken on the solution.

939. **The Deputy Chairperson (Mr Flanagan):** Do you have any idea how the ISEM will work? I saw material that the regulator or the SEM committee put out that was supposed to be easy to understand. There was about a 6 inch-long technical formula — that explained to me why I could not do my homework for A-level maths.
940. **Ms Brown:** We agree. *[Laughter.]*
941. **Mr Pollen:** We have an energy committee in our London office, and we have its chair coming over next week to work with us to examine that. You are probably asking that question about a week earlier than we would be in a position to shed light on it. We want to examine all the issues and impacts to see —
942. **The Deputy Chairperson (Mr Flanagan):** It is not something that a layperson could understand.
943. **Mr Pollen:** No.
944. **The Deputy Chairperson (Mr Flanagan):** You accept that.
945. **Mr Mitchell:** That is why we are going to our portfolio chairman —
946. **The Deputy Chairperson (Mr Flanagan):** You should not have to. What they put out was supposed to be for a layperson to understand, and it was completely unreadable.
947. **Mr Pollen:** It is a massively complex problem.

*(The Chairperson [Mr McGlone] in the Chair)*

948. **Mr Mitchell:** That is why we summoned our portfolio chairman for the UK.
949. **Mr Frew:** Just on that, will you produce a piece of work, evidence or a report on that work with your expert?
950. **Mr Mitchell:** Yes, he will work with us.
951. **Mr Frew:** I would be keen to see that.
952. **Mr Mitchell:** Yes, that is happening for the reason that Phil just gave.
953. **Mr Pollen:** We are doing several pieces of work on key policy areas. Additional research on —
954. **Mr Mitchell:** I heard him speak at the last policy meeting in London, and Northern Ireland was singled out at that. He explained the differences in Northern Ireland compared with other areas within the United Kingdom.
955. **Mr Frew:** If you could afford the Committee sight of that report, it would be very useful.
956. **Ms Brown:** Yes. It is going to be a few months before it is ready, but —
957. **Mr Frew:** I understand. The problem is not going to go away any time soon.
958. **Ms Brown:** Indeed.
959. **Mr Agnew:** Thank you very much for the submission. There is much in it that I agree with, but I would like to tease out some of the issues. You are obviously supportive of the proposed cut in corporation tax. You alluded to the opportunities there and the powers that have not yet been used. You are also asking us to invest more in skills and to deliver better and more in that regard. If I can paraphrase it, it sounds as though we are saying, “We want to pay less and get more”. How do you see that working? How does government make that work, particularly given the budget constraints?
960. **Mr Pollen:** One of the ways you could do it is to use the power of government to cut the cost of doing business. I will give you one very simple illustration of that, although there are probably 100 or 1,000 more that could be found if you looked. This one has come forward to us from a lot of our members, and it is to do with children’s day care. There is a private day-care sector in which we have about 300 businesses. Most of them are FSB members, and they have typically invested between £500,000 and £1 million per facility. So, there is about £150 million to £300 million of capital investment there. They employ more people than Asda. They employ about 5,500 people in Northern Ireland, so they are a great source of employment in communities all over your constituencies.
961. That sector is regulated to death — literally to death, as we have businesses that have gone under because of the excessive regulation. I will give an illustration of that: it comes right down to the degree of measuring a room for its square footage. Unless there is x square feet per child in that room, you have to reduce the number of children in it. That could be where your profit margin is. I will illustrate the minutiae to which it is regulated: if you have a cupboard fixed to the wall in the room, that reduces the square footage, so it might bring you down to the level where you are no longer allowed to have x number of children. If you put that same cupboard on castors so that it is not a fixture, it does not impact on the notional square footage. You still have the same cupboard in the room, but that level of regulating the industry means that you can turn it from being profitable to being loss-making.
962. I accept your point that it is always easy for business to come along and say, “Yes, do more with less”, “Cut our taxes” and so on, but there is a perfect example where regulation has been brought in. It was brought in for many very good reasons, do not get me wrong, but it is more heavily regulated in Northern Ireland than it is in Scotland, England, Wales or most parts of Europe. That has a cost to it that then frustrates that part of our membership in providing one of your objectives, as an Executive and Assembly, which is to provide affordable childcare. That is one

- illustration. There are many, but I hope that answers the question.
963. **Mr Mitchell:** Just to touch on a slight variation of that subject, we can look at government assets and how well they are used. What is happening with forestry, for example? Is it being used to best benefit economically? Another area that Roger referred to was residential homes that government run. What about the cost of running those compared with other areas, such as the social economy? Have we looked at those to see how we can reduce operational costs?
964. **Mr Agnew:** Do you not think that there is a risk with the cut in corporation tax? The Varney report in particular, and even the PwC report, said, “A cut in corporation tax would be nice, but it is not the key thing for businesses that we are looking to attract”. Do you not think that there is a risk in the amount? It has been estimated that over £300 million per year would be taken out of the public’s ability to invest in skills. Even coming to your regulatory point, as somebody who has had kids in a nursery — I am not sure whether it was a member of the FSB; I never asked — I would rather see investment in the skills of the staff than to worry too much about square footage. I am certainly sympathetic to your point. I very much feel that the priority should be on skills. Is there not a risk that, if we keep pushing the low-tax agenda, we will harm our ability to invest in those skills?
965. **Mr Pollen:** An awful lot of evidence has illustrated that cutting corporation tax encourages businesses to grow. That is not just your foreign direct investment; it is indigenous businesses. We are looking not at a loss of wealth to the Northern Ireland economy but at the transfer of control of that wealth from the public sector to the private sector. The private sector is the sector in which you need to create jobs. The public sector will not be doing it. It is accepted that it will not and that it will be reducing its numbers. We all need to see further growth and further jobs created, and the only sector that will be doing that is the private sector. If you can have a transfer of capital to the sector that needs to invest in itself to create more jobs, that is the policy that you need to pursue.
966. I accept that we are looking at all the other things around that, but there has been a sense of “taken as given” by the five parties of the Executive and the coalition Government. Even the Labour Party, whilst not necessarily wanting to support the Government of the day, is certainly supportive of the will of the Executive parties to move in that direction. If you look at the trend, you see that the UK Government have cut corporation tax from 28% to 20%. In that same time, a lot of the growth in private-sector jobs has been through large companies, which have benefited from the corporation tax cut and have invested in it. A lot of it has also been through small and microbusinesses, which are finding that there are is an environment in which they can sell skills and services created by that bigger upstream supply chain.
967. **Mr McKinney:** Can I just jump in there? I am interested in what you were saying about how, if the public sector is cutting and the block grant has been cut, the private sector needs to have investment in it, including infrastructure. Where is the money going to come from?
968. **Mr Pollen:** Part of it has to come from prioritising where you want to spend the money that you already have.
969. **Mr McKinney:** But, to radically change it, do we need to have a different conversation with Westminster?
970. **Mr Pollen:** I think that every part of the UK is looking at the moment at what it can get out of Westminster and is asking whether it has the right slice and so on. I think that everybody expects their politicians to go out and fight for them.
971. **Mr McKinney:** Yes, but I think that the case that you are making is that we will not change it unless we have that conversation because we do not have the money in our system.

972. **Mr Pollen:** Looking at things like the gas to the west, how much is that costing the public sector?
973. **Mr Agnew:** Thirty two and a half million pounds.
974. **Mr Pollen:** And how much is coming into it from the private sector? Government plays a role; it creates the opportunity and sets the framework, and private-sector investment then comes in as well. So, we set a shared objective.
975. **Mr McKinney:** I will finish on this point, Chair.
976. **The Chairperson (Mr McGlone):** Please, Fearghal, because Steven has to get back in.
977. **Mr McKinney:** That might be something in a sector that may create a certain number of jobs, but if we are going to regionally transform, surely we need to have the bigger conversation.
978. **Mr Mitchell:** There is, obviously, the transition stage. The worst that we can do is drop overnight between the public and private sector in Northern Ireland. That would be devastating. There has to be a clear plan for a transition period to deal with where the money comes from.
979. **Mr Pollen:** Look at things such as the agrifood sector. Government has worked with the industry here to identify it as an industry of importance. It has resourced it and championed it while letting the sector invest in itself and create the markets. Then look at the employment that has come along in the wake of that. That is a useful, fairly recent illustration of the opportunity for growth.
980. **The Chairperson (Mr McGlone):** Back to you, Steven.
981. **Mr Agnew:** Finally, yes. To be fair, Fearghal continued the thread, so it is fine.
982. On how government makes decisions, even if I accept, and I do not, that cutting corporation tax will eventually pay for itself further down the line, the projections that we have had are that it will be 10 or 11 years before we break even. I think that it was the economic advisory group, when it presented to the Committee, said that it was looking at 11 years. We have this interim period — I am sure that you will still be saying in which to invest in skills — in which there will inevitably be cuts to the public sector without there being immediate compensation from the private sector. Where do we look at? When I speak to businesses that are looking to invest, they say that they want there to be cultural activities, a good health service, a good education service and everything else. Yes, they want low taxes of course, but if we are bringing in businesses, we want those who are coming with those businesses to live in a holistic, developed society. Inevitably, what happens is that things such as the arts and environmental services get cut when we say that we are putting the economy first. If we are cutting everything else, how do we sell Northern Ireland to companies that are looking to invest?
983. **Ms Brown:** First, I have to say that the economy is not a separate issue from society; it is not separate from developing communities and society in Northern Ireland. Indeed, it is a fundamental part of it. If we have a comfortable and confident community, we have a better economic environment and vice versa. The two are not separate issues. We do not focus on the economy at the expense of other things. The issues are interconnected, and that comes back to having joined-up government and joined-up thinking. A social economy strategy is not divorced from an economic strategy or a small business strategy. All are moving towards the same thing. There will be a transition period, and there will be difficult choices to be made. I do not think that skills is the area to suffer most, if you like.
984. **Mr Agnew:** I agree, but where is the area? Equally, nobody wants health to suffer.
985. **Ms Brown:** No.
986. **Mr Agnew:** Therefore, the obvious places are in the margins, such as

- culture and the environment. However, I always say that the environment is where we live. If people do not want to live here, they will not want to work here.
987. **Ms Brown:** We have to remember as well that the block grant reduction that will result from the cut in corporation tax will not happen for a couple of years after the powers are implemented, because of the nature of tax collection. There is that bit of leeway. Furthermore, I know that it sounds like an enormous amount of money, but I think that it might be less than the Budget cuts that we are experiencing now.
988. **Mr Pollen:** You are asking where the money will come from, and that is the other side of it. Some of the most robust estimates suggest that about 40,000 jobs will flow from the change to the corporation tax regime. Look at the additional rates that 40,000 people with jobs would contribute to the system. OK, that would not come into Stormont, but it would come into the Northern Ireland public sector for the delivery of services. This is about setting out our stall and finding out how we can send signals to the whole international business community that Northern Ireland is the best place in which to do business. Part of that is corporation tax. That is, if you like, your flag to attract attention, but a lot of it has to be about quick decision-making; a timely way of getting through planning; the good infrastructure that has been invested in; and the skills base that is there to support it. It is about putting that comprehensive mix in place and using corporation tax to attract attention to the other great basket of —
989. **Mr Mitchell:** We clearly accept that it is only one aspect. We do not believe that the devolution of corporation tax powers is a magic wand.
990. **The Chairperson (Mr McGlone):** The creation of disposable income has a ripple-out effect to other —
991. **Mr Pollen:** To your small businesses and your shops, to people who do not pay corporation tax.
992. **Ms Brown:** Increasing demand is more important.
993. **Mr Pollen:** They may be sole traders, but they will still benefit from the wealth that is being created.
994. **The Chairperson (Mr McGlone):** That is the idea.
995. That concludes our session. Thanks very much. It was very interesting. Thank you for giving of your time, and it is great to see the three of you again. There are one or two questions that we did not cover, but we will send them to you in writing for a response.
996. **Ms Brown:** Certainly.



# 21 April 2015

**Members present for all or part of the proceedings:**

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr Máirtín Ó Muilleoir

**Witnesses:**

Mr Chris Stewart	<i>Department of Enterprise, Trade and Investment</i>
Mr Thomas Hunter McGowan	<i>InterTradeIreland</i>
Mr Alastair Hamilton	<i>Invest Northern Ireland</i>
Mr William McCulla	

997. **The Chairperson (Mr McGlone):** Briefing us today are Mr Alastair Hamilton, the chief executive of Invest NI; Mr William McCulla, the director of corporate finance and property solutions in Invest NI; Mr Thomas Hunter McGowan, the chief executive of InterTradeIreland; and Mr Chris Stewart, the deputy secretary of the policy group in the Department of Enterprise, Trade and Investment.
998. You are all very welcome, and thank you for giving up your time to be with us today. It is good to see that you are well aware of the inquiry and what we are doing. You know the procedure, and most of you have been before the Committee before. We will have an opening statement from whoever is delivering that. Is that you, Mr Stewart?
999. **Mr Chris Stewart (Department of Enterprise, Trade and Investment):** It is, Chair.
1000. **The Chairperson (Mr McGlone):** Following that, we will move to the question-and-answer session. Please continue.
1001. **Mr Stewart:** Thank you, Chair. I will make a few brief remarks, if I may. We welcome the opportunity to join you here this morning. The Committee will have received a copy of our written briefing, which outlines the economic drivers that we believe are key to helping grow the Northern Ireland economy. Of course, one of the most significant of those is corporation tax.
1002. DETI very much welcomes the Corporation Tax (Northern Ireland) Act 2015, as it is now, and the opportunity that it provides for the Executive to take control of that major economic policy lever. It is our firm belief that a reduced rate of corporation tax will significantly add to the attractiveness of Northern Ireland as an investment location. Therefore, we see the power to adjust the rate as being a key economic lever that will help us achieve our long-term goals. The economic strategy outlines how securing the power to reduce the rate of corporation tax will enable us to rebalance the Northern Ireland economy towards greater private-sector and value-added growth. That is the Executive's long-term economic goal.
1003. We acknowledge within the economic strategy that lowering the rate of corporation tax is an important but not by itself sufficient measure to transform the local economy. Nevertheless, the evidence strongly suggests that it will allow us to do so much more quickly than would otherwise be the case. As Members will have seen in our written response, the economic strategy identifies a range of economic priorities to grow the Northern Ireland economy. Those include increasing the skills base; creating the conditions in which to allow Northern Ireland to compete globally for the highest-value prospects; strengthening the approach to innovation, research and development; encouraging business growth, particularly in the supply chains for foreign direct investment offers; and developing a modern and sustainable

- economic infrastructure. Members will recognise that those are the five key areas in the economic strategy's rebalancing themes. Underneath those, there is a range of key specific drivers; for example, exports, access to finance, business regulation, energy and telecoms infrastructure, and accessibility issues, including the prospects for an air-route development fund.
1004. I have referenced the economic strategy, and it is important to note that it is a living document. It is in that context that we will shortly begin the process of developing a refocused economic strategy action plan for the period beyond 2016. That updated plan will factor in the Executive's response to the devolution of corporation tax powers across all its key themes.
1005. Members may also wish to be aware that DETI, along with our colleagues in the Department for Employment and Invest Northern Ireland, will be carrying out research later in 2015 that will look at Northern Ireland's international competitiveness in key FDI sectors, particularly those that are likely to be attracted by a reduced rate of corporation tax. That research will identify sector-specific actions that are needed to strengthen our proposition and the Northern Ireland offer. That work will be a key information source in identifying those drivers that the Executive need to focus on as we move ahead. We will also commission, along with our colleagues in DEL, research on the factors that affect the demand and supply of skilled people, with a view to improving our ability to forecast and meet demand.
1006. In summary, the ability to set the rate of corporation tax is central to our economic strategy. It is important but not sufficient for rapid growth. To make the best use of it, we need a number of things. We need certainty on the rate and the date, and you will probably hear us use that phrase a number of times during our evidence. We also need to make sure that the policy framework is in place for the other drivers that I mentioned earlier. Those will be our focus as we take forward work on the next Programme for Government and on refocusing the economic strategy.
1007. We are happy to take Committee members' questions on those points.
1008. **The Chairperson (Mr McGlone):** Thanks very much for that, Mr Stewart. A recurring theme in the evidence that we have taken so far is that, although we have government there, there are a number of issues. You have rightly said that a reduction in the rate of corporation tax by itself will not be a big game changer. There is a plethora of other issues involved, whether they be infrastructure issues, communication issues or — we will come to it later — the availability of office accommodation.
1009. A recurring theme in the evidence is how we do business corporately as an Executive more efficiently and in a more joined-up and integrated matter. Will you reflect on whether there has been any thinking in the Department on that issue so that those who want to make decisions elsewhere — hopefully, there are those who will want to make decisions whenever we get around to making them, but that is another matter — can do things more efficiently?
1010. **Mr Stewart:** There has been, and there are a number of areas in which that is very much the case. Of course, it is already the case that we work very closely with our colleagues in DEL, as does Invest Northern Ireland. That will be even more the case when DETI comes together with DEL in the new Department for the Economy next year.
1011. I mentioned the specific pieces of research that we will commission, again working closely with our colleagues in DEL and, indeed, the Department of Education. When it comes to things such as the supply of skilled people, it is important to go all the way upstream and look at the factors that will affect that, going right back to primary and post-primary education. That will also be the case.



1012. At a more strategic level, when it comes to refreshing and refocusing the economic strategy action plan, it is very important that that be a cross-departmental exercise. It is, and it is being taken forward in that manner. We recognise that a broad range of factors will have an impact and be necessary enablers for corporation tax. That, of course, includes things such as infrastructure, and we are talking to colleagues in the Department for Regional Development about that.
1013. Another strategy area in which that is very important is business regulation. I chair a cross-departmental group of officials that is looking at formulating the Executive's response to the report on better regulation that was produced at the end of last year. Through that process, we stress that this is not simply a DETI exercise into which others are inputting but is of equal importance right across government. Corporation tax is part of the overall approach to rebalancing the economy. Therefore, we emphasise to colleagues in other Departments that, increasingly, our ability to fund and develop public services will depend on our ability to grow the economy. Better regulation and making Northern Ireland more business-friendly is not just a DETI interest but an interest for every Department.
1014. **The Chairperson (Mr McGlone):** You will forgive me for saying that it appears to be a wish list, to the point of realising all those issues in a corporate manner and bringing them to fruition. Many could justifiably argue that that should have been done a long time ago, and it was probably the responsibility of the Executive to make sure that it was done a long time ago. Do we have a time frame within which to work, or is it just a tick-box exercise to say that Departments have been consulted and back we go to our silos?
1015. **Mr Stewart:** I fully agree that it cannot be a tick-box exercise. It has to move from being a wish list, if that is what it is, to being an action list. The two areas in which we want to show you real delivery are in the refocused economic strategy action plan and the Programme for Government. That is where you will see the fruits of our labours in the months ahead.
1016. **The Chairperson (Mr McGlone):** I want to tie this aspect down. You said that you were talking to other Departments: is that just informal chit-chat, or are we doing something more strategic, formal and focused?
1017. **Mr Stewart:** It is more focused and formal. I would be concerned, as would the Minister, if it were merely informal chit-chat. There is a formal governance arrangement for specific issues such as the better regulation report. I chair an interdepartmental group on that. For the even more substantive work around the economic strategy and the Programme for Government, there is the Executive subcommittee on the economy, which Minister Foster chairs. That will be driving forward action in those areas.
1018. **The Chairperson (Mr McGlone):** You are saying that it will be driving forward —
1019. **Mr Stewart:** It is driving forward.
1020. **The Chairperson (Mr McGlone):** Can you give us any indication of what it has done to date?
1021. **Mr Stewart:** There are two pieces of work on the economic strategy action plan. It is being immediately refocused for the additional year of the Programme for Government, and that is almost at the point at which it will see the light of day. Therefore, work had been going on across Departments. All Departments have had an input, and we have a range of action steps and measures that they will take. The only reason that that has not yet seen the light of day is because it has to be kept in step with the roll-forward of the Programme for Government. We hope that you will see that in weeks rather than months.
1022. The major reworking of the economic strategy action plan will be taken forward in conjunction with the development of the new Programme for Government. That will get under way very soon after the election.

1023. **The Chairperson (Mr McGlone):** You said that some stuff has not yet seen the light of day. When is that likely to happen?
1024. **Mr Stewart:** In weeks rather than months.
1025. **The Chairperson (Mr McGlone):** That is grand.
1026. I want to bring you on to a number of other things that have come up. You will know from your work abroad that, for any business that is thinking of investing, a key element is certainty of decision-making and of the environment that it is going to enter. We may come to this in a minute or two with Mr Hamilton, but it is very difficult to go abroad and work on a “maybe”. We may get powers to change the rate of corporation tax. Although we made a decision that we will take that road, we only might get the powers. That is not a good sell to anybody, because you get only one opportunity before you are banjaxed. You are out the door if you cannot give certainty.
1027. The second element, and I am reflecting what I have heard out and about on doorsteps and elsewhere, is that there is an uncertainty about our withdrawing from Europe. Clearly, freedom of movement of goods, services and people is a key element of any economic strategy. Aside from the damage that withdrawing from Europe would do to our local economy, and we have seen that in papers that were independently commissioned for this Committee, do you, without taking us directly into the political arguments, have a view on how the ramifications of certainty affect business when it comes to either of those two issues?
1028. **Mr Stewart:** I am very glad that you provided me with that self-denying ordinance at the end of your question. *[Laughter.]*
1029. **The Chairperson (Mr McGlone):** I know that you are prudent enough not to go there.
1030. **Mr Stewart:** I am sure that members will appreciate, particularly in the formal pre-election period, that I need to be even more circumspect than I would normally be, especially where there are issues around a potential exit from the EU. However, I think that the generality of your point is observably correct.
1031. Alastair will want to say some more about this, as certainty is extremely important. Of course, it is a matter for the Executive to determine how and when they would use the power to change the rate of corporation tax, but whatever the decision, certainty is extremely important. You are absolutely right. For Invest Northern Ireland to lever in the maximum advantage that it can get, Alastair needs to know exactly what it is that he has to sell.
1032. **Mr Alastair Hamilton (Invest Northern Ireland):** Chair, thank you for the invitation to be here.
1033. I will reflect on both points. There are three aspects around certainty that, from our point of view, are critical. One is the rate, and clarity that that rate will be maintained for a period. The second is the date on which it will start, and the third element is having some clarity around its longevity, because we are moving into an environment in which people will build business plans based on a long-term opportunity from corporation tax. What we are talking about is an investment distinctly different from those that are being made today. In our service-related inward investment, which accounts for the majority of what we do today, the investment is very quick and potentially a lot lower than the profit centre projects. By and large, it is property, and I am sure that we will come to property. It is desks, telephones, Internet and infrastructure. I have massively simplified it, but it is basically what people need in order to get up and running. One of the benefits that we have seen is that we are able to secure inward investment in the service-related sector and see businesses come in and ramp up very quickly. Once we start to leverage corporation tax alongside that proposition, it is a longer-term investment and a larger facility, with

- capital equipment perhaps required to drive and maximise the benefit that businesses get out of the rate of corporation tax. People will want to be assured that, over the lifetime of five, 10 or 15 years of investment, the tax is going to stay at that rate and that their business plan stacks up for them.
1034. We need three things assured — the rate, the date and some horizon over which the benefit will be maintained — to ensure that people can build business plans with confidence. You are right: even as we sit here today, there are people out there, both existing investors who have other potential opportunities that are profit-related and other people who have picked up a little bit on the message and on the conversation that is going on. The longer that time goes on before we are able to clarify those three things, the longer that it will be before we start to maximise the benefits. There is a real opportunity in front of us today to take this out and start to sell it, and that is what the business case was built around. The sooner that we can get there, the better.
1035. On the EU piece, I will probably follow some of Chris's cautious comments, but we did write to you, and I will just repeat what we put in our submission, as it is in the public domain:
- “Were the UK to leave the EU following a referendum, this would place considerable uncertainty at best on NI's FDI prospects.”*
1036. I signed that document. I say that because, at this moment in time, and I envisage this continuing with the corporation tax profit centre proposition, one of the key things that we present, particularly to those coming from the west, and increasingly those from the east, is that Northern Ireland, as part of the UK and part of Europe, is a lower-cost, high-quality destination for them in which to locate their operation and get access to Europe. Those last few words are important words when it comes to the proposition.
1037. Furthermore, you and the Committee will know the numbers, Chair, for our exports to the European Union. The previous
- time that I sat here, it was fine that we looked at performance over and above in all the job-related areas, but our exports still struggle. In that environment, I want to do all that I possibly can to grow our exports. If the majority of them are going to the Republic of Ireland, France, Germany and the Netherlands, those are areas where we can continue to grow, and I want to see that continue.
1038. **The Chairperson (Mr McGlone):** Thanks very much for that. I have two final points to make. I have read the report and Mr McCulla's previous comments to the Committee about the difficulties that there were around grade A office accommodation. I see that Invest NI made a statement this morning. It basically lifts the two final recommendations from the report and states that you are going to explore them. What does that mean? I certainly hope that it does not mean another report that will take a couple of years to manifest itself, because this one was a long time in the making, and it went through multiple iterations. What are we hearing here? What exactly is going to happen?
1039. **Mr William McCulla (Invest Northern Ireland):** The plan now is that we will go to market. We will seek expressions of interest from developers to put forward their projects and proposals for developments right across Northern Ireland. This is not just a Belfast initiative. In looking for those developers to put forward their proposals, we will enable them to seek mezzanine funding or second-charge funding from us. The plan is that the call for expressions of interest will be released to the market within the next two weeks. The opening period for responses will then run from the start of June to the end of August.
1040. **The Chairperson (Mr McGlone):** Thank you for clarifying that, as it was a wee bit unclear from the statement. Can you tell me what the scale of the intervention will be?
1041. **Mr McCulla:** The intervention that we are proposing is for up to 40% of the development costs. Therefore, it will still

- be a minority of the costs, but it will be a significant element.
1042. **The Chairperson (Mr McGlone):** That is refreshing to hear, thank you.
1043. Finally, the people from the Federation of Small Businesses (FSB), when they were in just before you, suggested that there should be small business advice unit in Invest NI. The purpose of that was that they felt that, although there is advice available locally for businesses, often through local council services, it can vary in quality, from high quality to not-so-good quality. They said that there should be some sort of coordinating centre at Invest NI to ensure that there is quality control of the advice that is being disseminated. Have you any ideas or thoughts on that? It is something that just came up earlier today.
1044. **Mr A Hamilton:** I am a little bit surprised by that, because there is a small business advice unit in Invest Northern Ireland, the business support team. It was launched, if you remember, Chair, when we were launching the Boosting Business programme. We rolled out a fairly intensive programme, with an 0800 number and a website.
1045. **The Chairperson (Mr McGlone):** I put that to the FSB.
1046. **Mr A Hamilton:** That team is still there. That is the single point of contact for all inbound inquiries outside of those customers who are account-managed and have their own dedicated person to go to. Everybody else comes through via text, the website or telephone to the business support team. There are two aspects to what you asked, and that is the answer as far as an inbound enquiry to us is concerned.
1047. Coordinating the information that is given by other parties, including the FSB, which would seek to give advice to small businesses, is quite a challenge. Although we want to make sure that our messages are there with all the representative bodies, including the FSB, our main remit is to make sure that we are aware of all the things that all government bodies and external parties are doing so that we can provide advice to the people who phone in. Therefore, that service is already there.
1048. **The Chairperson (Mr McGlone):** I put the point about the 0800 number to the FSB representatives, but it appeared from listening to their evidence that they had something else in mind: some organisation somewhere, and they were pointing at you, that should be able to lift the quality of advice — not manage it, but lift it — presumably through workshops and the like. It might be opportune for a chit-chat to be held between the FSB and Invest NI on that matter, because clearly it has a theme in mind.
1049. **Mr A Hamilton:** I will do that.
1050. **The Chairperson (Mr McGlone):** Thanks very much for that.
1051. **Mr Frew:** Thank you very much for your presentation and your answers so far. I want to speak on what is probably one of the biggest and most major problems that we have in Northern Ireland: energy costs, especially for large employers in heavy industry and manufacturing. During the Committee's review of electricity pricing, Invest NI stated that the cost of electricity continues to play an important role in investors' decisions to locate here. I imagine that that is still the case. Although we will be able to entice businesses in with lower corporation tax, energy costs may be the one factor that turns them around again, meaning that they go in a different direction. How big a problem is it for both bodies in trying to attract business, even with the carrot of the rate of corporation tax? How big an issue is energy costs to enticing new business here?
1052. **Mr A Hamilton:** I will kick off on that one. There are two sides to that story. First, I could easily say to you that energy costs is not currently a big issue when it comes to our foreign direct investment proposition, but that would be unnecessarily avoiding a discussion around what might be a challenge for us in the future. As I said to you, the vast

majority of our foreign direct investment proposition is service-related, and therefore energy costs are, generally speaking, a very low proportion of the overall cost of setting up a service-related industry or business in Northern Ireland. The majority of the costs are wages and salaries, followed by accommodation and then infrastructure and telecoms-related costs. Therefore, energy is not a big challenge for those companies. However, as we look into a future world in which corporation tax will play a more significant role — we have looked at the sectors from which we could attract a profit-related inward investment — there is the prospect of optimism for the future. I envisage and hope that, particularly with the sectors that we have focused on such as advanced engineering, life sciences, pharma and spreading out beyond that, a higher proportion of their mix of set-up and ongoing running costs will be energy costs. In the future, that will be a challenge for us in building that proposition around corporation tax.

1053. It would be wrong of me not to reflect on the companies that are here. Irrespective of the policy drivers today, related either to service or, potentially, corporation tax, there are a wealth of home-grown companies and companies acquired or built internationally that have maxed out on efficiency work in their operations. They have maxed out on transport and logistics efficiencies and cost reductions, and, increasingly, as one plant among a much larger family of plants around the world, the focus continues on the one piece that is disproportionate in the mix. As you know, we often say to them that there are other benefits with wages and salaries, and, potentially, corporation tax, which may play for those firms in the future. However, it is quite right to say that we are concerned about the challenges that some of those firms face in the current environment.
1054. **Mr Stewart:** I will add to that from a policy perspective. Like Alastair, we recognise the challenge and the difficulty, and we are absolutely not in

the business of denying it. Overall, there is some good news in that the number of firms that are expressing concern about energy prices has fallen. Again, that is not to deny the very real and serious concern that continues to exist, particularly among very large energy users. We know that that is there. If we look at the CBI's road map and its proposals for addressing the issue, the Department recognises, supports and is working towards the suggestions that it has made. It is about recognising, fundamentally, the importance of the second North/South interconnector and getting that up and running as soon as possible. While there are concerns about issues such as network costs, by far the largest component of electricity costs is and always will be the wholesale cost of electricity. We need to drive that down in the context of the new all-Ireland integrated single electricity market (I-SEM). Work on that is important, as is work on the North/South interconnector. Work on restoring the Moyle interconnector to its full capacity is extremely important, and the good news is that Mutual Energy tells us that that should be done ahead of schedule and at a lower cost than it first thought would be the case.

1055. The CBI has pointed out that we struggle to find an easy solution to the apportionment of network costs. We recognise the very clear call from the CBI and Manufacturing Northern Ireland to change that and to change the distribution of the network costs. I am afraid that the response that we have to give to that is that it is not easily done. Of course, if there is a redistribution of costs, someone else has to pay. If you remove an element of cost from large energy users, it has to be passed on to somewhere else, perhaps on to smaller firms or domestic customers. We also have to be mindful of European law, both for state aid and competition, which very much restricts our room for manoeuvre. Nevertheless, the Minister is acutely conscious of the issue, and we continue to engage with the Utility Regulator to see what can be done and to make sure that we take every opportunity that we

- can to reduce unnecessary costs to larger users.
1056. **Mr Frew:** I will take up each of your points. On I-SEM, it seems to me that DETI and the Executive are only part players and that their destiny is not their own, given the changes that need to be made. There are other problem players: NIE, the Utility Regulator and the System Operator for Northern Ireland (SONI). Of course, we are on the extreme edge of Europe, with a small-scale electricity grid, so there are challenges and problems, which I appreciate. Every time that the Government try to do something to ease the pain or to make things better, it ends up costing. Costs always fall on the consumer, whether it is paying for more capacity or fixing a fault or whatever on the grid. It all seems to fall back on the consumer. Given that industry and large employers have to pay more for that, they are burdened and hit. What fears do you have about I-SEM? You talk about cost, but there must be transparency about that cost. There are real fears with I-SEM that transparency will be lost, especially when you have a generation market and a retail market and companies that have an arm in both. They may be able to hide the true cost of electricity to skew the retail market and keep prices high.
1057. **Mr Stewart:** You have rightly identified a number of the challenges with I-SEM, of which there are many. You used the word “fear”, which I would not use for I-SEM. That is not to sound glib in any way or to underestimate the challenge. I-SEM is the biggest, most strategic and most challenging change to energy provision that we have seen, certainly since the last single market. We recognise that there is a great deal of concern, not least because of where that process is at the moment. People will have seen the high-level design, but they have not yet seen the detailed working-out of exactly how I-SEM will operate.
1058. We are very conscious of the issues that we have raised, and I know that the Minister continues to impress on the SEM committee the need for clarity of communication and, in particular, the issue of transparency that you raised. There is, of course, market power and the ability of participants to distort that. It is important that the detailed arrangements for I-SEM address that and that that is communicated in a way that is open and transparent so that people have trust and confidence in what will be at the centre of our energy policy for many years to come.
1059. **Mr Frew:** How will business be able to have a say in the finer details of I-SEM, if at all?
1060. **Mr Stewart:** It will be in two ways. When the time comes for formal consultation on the detailed arrangements — even before that — we will expect to see evidence that the SEM committee is engaging effectively with stakeholders and taking their views on board. I-SEM is too important for any group of people to do it in a locked room and show their working-out at the end.
1061. **Mr Frew:** I believe that NIE is misrepresenting the commission — I have forgotten its name — that arbitrated on its price review.
1062. **The Chairperson (Mr McGlone):** The Competition Commission.
1063. **Mr Frew:** Yes, the Competition Commission. Thank you, Chair; you pulled me out of a hole there.
1064. **Mr Flanagan:** The Competition and Markets Authority.
1065. **Mr Stewart:** Yes — its name has changed.
1066. **Mr Frew:** I believe that NIE is misrepresenting the commission when it says that it did not get any money for investing in the 11 kV grid, so it cannot do it. It did not justify the cost spend, but it should still be investing in that grid. At the moment, no businesses can generate power to feed into that. Their high energy costs mean that their arms are tied because they cannot generate their own energy. They are stuck in a limbo or a catch-22 situation whereby they are still paying these

- bills. What would you say about that misrepresentation?
1067. **Mr Stewart:** I note your concern. I should be cautious in passing any judgement as to whether NIE has misrepresented the position. Certainly, if there is concern about that, we will look at it. As you know, the Minister very much shares your concern about investment in the grid at the 11 kV and 33 kV levels. You are quite right that the RP 5 price determination that went to the commission imposed significant limits on the investment that can be made in the grid, which will be funded ultimately by consumers. Again, you are quite right; it did not say that there is no investment.
1068. The Minister is very concerned about that, which is why she recently called a round-table meeting of all interested parties, including SONI, NIE, the regulator and the Department. She made it very clear to everyone, including the Department, that she expected to see a joined-up approach and that she expected to see the investment that is permissible being made in a timely fashion and in a way that responds to the policy framework that she has set for renewable energy, which supports economic development. As you and other members know, the Minister's postbag contains as many concerns about load connections at the moment as it does about the development of renewable energy. We need to ensure that that does not impinge on economic growth and development.
1069. The Minister will impress that on NIE. She received assurances from NIE that it is now ramping up the level of permitted investment in the grid at those two levels. She will also be looking to NIE and the regulator to see what else can be done. You are right: the commission sets certain rules, but, within those rules, there are opportunities, particularly for innovative solutions, to connections. The Minister will want to make sure that, if the bottom line is that we cannot invest as much as we would like, we make sure that we invest every penny that is available and do so in the most efficient and effective way. She has asked all organisations to have a mind, not just to the often-quoted duty of protecting the needs of consumers but to an assurance that it reflects the need to grow the economy and support business. That, after all, is the reason why energy policy is within DETI.
1070. **Mr Frew:** You rightly say that the state of the grid could impinge greatly on investment and attracting investment. We seem to have an issue east of Ballymena, which is a highly industrialised zone. Invest NI has a number of acres of greenfield that could be used for investment and new business, but we have a problem with substations in that area. NIE's solution is that it consider power parks, which basically means subvention and intervention, I believe, from Invest NI to help to finance upscaling and investment in the grid. Is that a role that Invest NI should play in the future, and is it a part of the policy thinking?
1071. **Mr Stewart:** Alastair may want to add to this. We are open to looking at all possible solutions. It is not good enough for the Department to sit back and say that nothing can be done, so we want to look at all possible solutions. However, as with any solution, we need to look at it carefully. The role of the regulator is central to what can be done. Her office and the Department will be mindful of what European law permits us to do. However, notwithstanding those caveats, we want to look at every possible solution.
1072. **Mr Frew:** Does Invest NI have a view?
1073. **Mr A Hamilton:** I probably do not want to go much further than Chris has already gone. Some time ago, we looked to see whether we could develop propositions on the infrastructure side, and there are challenges there, both at an EU and wider level, about subvention on electricity costs. We have now reserved more of our effort for the energy efficiency side, providing advice and funding on alternative energy sources and encouraging firms to go down that

- path of sustainable energy. That is where we are focused at the minute.
1074. **Mr Frew:** My last question is on the restructuring of energy charges. You say that it may be contrary to EU law on state aid, and the Chair made a point that maybe you do not really cut it in the business world. How is it that the Republic of Ireland and Germany can reconfigure or restructure their tariff?
1075. **Mr Stewart:** I wish that I had an easy, clear and comprehensive answer to that, but I confess that I do not. We look enviously at the position in both those jurisdictions. We understand that, particularly in Germany, that has come to the attention of the Commission — it is now looking at it — and the German authorities will see that being looked at. It could lead to a challenge. We have to go on the advice that is available to us, which is that, under EU law, it is not permissible to do what we would like to do. It may be the case that others have gone that way and, for whatever reason, have not yet felt the wrath of the Commission in doing so, but that does not really make it any easier for us to follow the same path.
1076. **Mr Frew:** For how long do we keep looking enviously at other member states? You have just stated that you would like to do something on restructuring — my ears pricked up when I heard that — which probably makes me look more positively on it. For how long do we keep looking over the fence at other member states getting away with it?
1077. **Mr Stewart:** I shall have to check the record very carefully in case I have invented a new bit of policy that the Minister would not thank me for. *[Laughter.]* For the avoidance of doubt, I am not announcing any particular exercise to look at or to redistribute network costs. However, the Minister is on record as saying that she recognises the concerns of large energy users. We wish that it were some other way. We do not have an easy solution at the moment for redistribution of network
- costs, which would, in any case, be a decision for the regulator.
1078. **The Chairperson (Mr McGlone):** I allowed that discussion to go on a wee bit because these costs are a major issue. I have just one point: do you ever talk to officials in other jurisdictions, who may have gone down a slightly more adaptable route, to see what advice they have taken and the context in which they have taken it?
1079. **Mr Stewart:** We do, Chair. I cannot point to a specific engagement that I have had on this very issue, but it is a fair point, and I think that there is room to do more of that.
1080. **Mr Flanagan:** Thanks for the presentation. Alastair, do you accept that energy prices here are not competitive, which is why you tend to go after the service sector as opposed to energy-intensive industries?
1081. **Mr A Hamilton:** The motivation for going after the service sector is not directly related to the energy price. That is not the deciding factor for going down that path. The deciding factor is twofold. First, we have skills coming out of our universities, colleges and schools that suit the service sector. Secondly, to compete for those industries on this island with another jurisdiction that has a more attractive tax level has been and will continue to be foolish. We separate ourselves from that and compete for the projects that we have a chance of winning. Those are mainly in the service sector, aligned to our skills and the competitive environment on the island.
1082. **Mr Flanagan:** Do you accept that our energy costs for intensive energy use are uncompetitive?
1083. **Mr A Hamilton:** They are. They are much higher than other parts of these islands. In isolation, they are higher and a challenge. What you need to do, and what others do, is put it into the mix. I acknowledged in answer to a previous question that it is becoming a more visible part of the mix, but there are off-setting factors for high-energy users in accommodation costs and salaries that



- help to soften that a little. However, as I openly acknowledged, it is increasingly becoming a challenge.
1084. **Mr Flanagan:** I do not think that you have done enough to tackle regional imbalance. The commitment in the Programme for Government 2011-15 to tackle regional imbalance was a positive step at a political level, but I do not think that Invest NI has done enough to embrace that opportunity.
1085. One thing that I am considering through this inquiry is the setting of subregional targets. I am sure that you have been briefed that I raise that issue at most evidence sessions. If the Executive and the Assembly decided to set subregional targets for Invest NI in the next Programme for Government, could you work with it?
1086. **Mr A Hamilton:** I will come to that question in a moment. Let us talk about what you classify as regional imbalance, which is, I suppose, in other people's language, the distribution of jobs in the work that we do. As you know, some of the responsibility for start-up business has transferred to the councils. Of the 25,000 jobs that was our target until the end of March, more than 6,000 were start-up business jobs, so a sizeable proportion of that responsibility has now transferred to the councils.
1087. "Regional imbalance" can be expressed in lots of ways. Over the last two or three years, we heard it expressed at almost an Assembly level. Whether that is the 26 council areas or down to sub-sectors below that, it becomes a challenge. If you were to introduce subregional targets that broke it down to 20 or more areas, with goals and targets for each, that would be a significant challenge not only for us but for the economy in Northern Ireland in the way that it is driven.
1088. Privately and publicly, you have often referred to some of the things that go on in the Republic of Ireland as an example and model for subregional growth. There, that is expressed almost in the negative: outside Cork and Dublin.
- Until recently, the targets there were expressed in that way.
1089. I went back and looked at our performance last year. You will know that it was a record performance, with 10,765 jobs. Of those, 55% were outside Belfast. If I had asked you to guess how many of those were outside Belfast — maybe I should have — I do not suspect that you would have guessed 55%. This year —
1090. **Mr Flanagan:** I would have told you that 3,000 were created in Belfast.
1091. **Mr A Hamilton:** Sorry?
1092. **Mr Flanagan:** I would have told you that 3,000 were created in Belfast.
1093. **Mr A Hamilton:** Yes, but 55% of jobs outside Belfast is well in advance of the percentage target that colleagues in the Republic of Ireland were driving for outside Cork and Dublin.
1094. A total of 7,500 jobs was announced in the first six months of the year that has just finished. Again, 43% of those were outside Belfast.
1095. **Mr Flanagan:** When you talk about Belfast, are you talking about Belfast City Council or the greater Belfast area?
1096. **Mr A Hamilton:** I am talking about the four parliamentary constituency areas. It is not as stark as it may seem for subregional growth. You were quite right to challenge me and say that you do not think that we have done enough. I think that we have done quite a bit in trying to incentivise and encourage firms. Just a few weeks ago, we announced the Eishtec project in Portadown. A few more are coming in outside Belfast — if you want to classify it as that. I have often said to you — I will repeat it again today — that there is a piece on how much we can motivate, incentivise and encourage people as to where they locate and the choices and decisions that firms make. As for setting targets, and to answer your very specific question, I would be very wary and cautious of setting unrealistic targets at a micro level when all that that will do is

- to stimulate a situation in which we may miss opportunities because we are not able to secure them for Northern Ireland as a whole.
1097. **Mr Flanagan:** I would not like unrealistic targets to be set either.
1098. **Mr A Hamilton:** I come back to your point when you referred to the Programme for Government. I have often made that point here. I find myself, oftentimes and again now, at a bit of a crossroads: a policy challenge. As you know, I am very focused on delivering targets in my operation. Every time that I come and sit before this Committee, I account for all the targets. The Programme for Government targets have been delivered against and have massively exceeded in performance. The thing that you, the wider Committee and the Assembly need to consider is that, once you start to break that down and take the focus off the delivery of economic benefit for Northern Ireland as a whole, and you start to parse, divide and split that and force investors, perhaps unwillingly, to go to a location that they do not want to go to, the bar will drop, and overall performance on delivery of jobs, particularly from foreign direct investors, will not happen.
1099. My last point — this is a worthwhile point — is that, quite apart from all the usual reasons that I give you about people wanting proximity to universities, colleges, infrastructure, airports and all those things, bear in mind that, for the vast majority of projects that we compete for — I re-emphasise that, just because of the over-performance that has been delivered over the past few years, people think that this is an easy job, which it is not — we compete with over 200 economic development agencies around the world for mobile inward investment. The vast majority of times that we compete for projects, we are being compared with cities and regions of the world, particularly within the European dimension, that have populations in excess of one million or 1.5 million. That is what people are looking at.
1100. **Mr Flanagan:** You are telling me that you cannot force people to locate somewhere, but, in 2013-14, when £92 million was spent hosting the G8 summit in Fermanagh, only three companies were brought to the county to consider investing there. Those are the statistics that we are dealing with. In the same financial year, only 155 jobs were created in Fermanagh, and 3,000 were created in Belfast. I acknowledge that Invest NI has performed exceptionally well in recent years in a very difficult environment, but there is a well-founded feeling in very many areas that this rising tide is not lifting all boats: we are not all benefiting from the historic over-performance of Invest NI. Three visits to Fermanagh and 155 jobs being created in a financial year is testament to that.
1101. **Mr A Hamilton:** There are other dimensions to that that you probably need to reflect on. Where projects are located, where people live and where they travel to work are dimensions that you need to play into this mix. Sometimes, particularly in this environment, we get very myopic: “These things need to be in my back yard”. Perhaps Fermanagh is a more distant location, and I accept some of the points about that. You could go elsewhere on these islands and look at people’s commute-to-work times. I am quite happy that we are creating jobs in areas where people will have a 20- or 25-minute commute to access projects that would not otherwise be here. Let me make it clear: a sizeable number of projects, if they had not come to Belfast, would not be in Northern Ireland at all.
1102. **Mr Flanagan:** I want to deal with the work on office accommodation. Is there any possibility that there is a conflict of interest for Invest NI? Are you giving the loan out, or will it be DFP? Will it be Invest NI money or DFP money?
1103. **Mr A Hamilton:** We will manage the loan on behalf of the Executive in the same way that we manage the existing growth loan fund and equity schemes.
1104. **Mr Flanagan:** Is there any chance that there will be a conflict of interest on

- where you encourage companies to locate? There is a perception that Invest NI might want to fill up the buildings that it is providing finance for more quickly to ensure that the loan repayments are met on time.
1105. **Mr A Hamilton:** No. As a business case, we are interested in trying to stimulate the property market. I do not want to get into this debate today, but I recall being in front of the Public Accounts Committee a number of years ago when it looked at speculative builds and properties that were built by Invest NI. The accusation at that stage was that those buildings had lain unoccupied for a very long time and had not utilised public funding successfully. So I am not at all concerned that there will be any preferential treatment or any skewing of our effort towards a building that just happens to be funded or supported through government funds.
1106. **Mr Flanagan:** Thomas, my final question is for you, because I think that somebody had better ask you a question. It is genuinely good to see you back here; we welcome you back and wish you well.
1107. How are you getting on with the InterTradelreland budget?
1108. **Mr Thomas Hunter McGowan (InterTradelreland):** There were cuts in the budget across all bodies because of the financial requirements, and we have tapered our activities to match that to best effect. Through all the things that you spoke about today and the issues that arise from the business monitor, access to finance came up as a key requirement. Small firms could not find their way through the maze of how to access that, so we recently started a new programme, Funding for Growth, with a series of workshops and information clinics to assist companies. We have allocated resources to the most immediate needs — to those who create the jobs most immediately — rather than the longer-term ones. We have scaled down programmes like Innova, which is a longer-term deliverer, to more immediate things like our sales functions or our intelligence end in FUSION, where we have a technology transfer programme. We have also brought on things like the Funding for Growth advisory clinics, which have proved to be a huge success in that we have clinics and workshops. We have six clinics and six workshops in Northern Ireland where we get the numbers in and, as the companies understand the range of options available to them for funding, they can go a bit deeper, attend a workshop and find out what they need to do with it.
1109. **Mr Flanagan:** The innovation awards were hugely successful once again. It is good to see that kind of work being done.
1110. I was in Waterways Ireland recently, and the fall in the euro has cost it €600,000 in its annual budget. Has InterTradelreland faced a similar situation?
1111. **Mr Hunter McGowan:** Our budget is framed in sterling, so it puts extra pressure on the Southern Government to come up with the extra sterling to make up any shortfall.
1112. **Mr Flanagan:** So it is a government problem in the South; it is not that you have to take the hit.
1113. **Mr Hunter McGowan:** They have always matched it and made sure that we were never left short.
1114. **The Chairperson (Mr McGlone):** Thank you very much for that. I want to pick up on Phil's point about the infrastructures and links of subregional development. Alastair, you mentioned 26 different targets subregionally. Are you lifting it now to the 11 new super-councils? Can you work in that context?
1115. **Mr A Hamilton:** There are options. Again, those things need to be considered as you formulate and shape the Programme for Government and the shape in which you put that out. If you look to the South, you will see that, until recently, it has been an “outside Dublin and Cork” measure. I suppose that that is three: Dublin, Cork and outside

- it. In the new framework that has been published, they have now moved to the NUTS 3 regions, of which there are eight in the South and five in Northern Ireland. You could look at that model, which means that you are breaking it down to five areas, or you could go for the 11 new council areas and beyond. From my point of view, the further you go out and the smaller those groups become, the more challenging it is to start to get balance across those groups in what you do. Those are the options.
1116. **The Chairperson (Mr McGlone):** I hear what you say. Piggybacking on that, there is the grade A office accommodation, because infrastructure and what is available to investors is crucial. Have you given any policy direction that areas that are less well invested in — through no deliberate intent but that was the way that things rolled out — are incentivised so that grade A office accommodation is available? I hear often from my colleagues in Derry that that should be the case. Are you just leaving it to the investors to speculate on where they think there will be the best return for their money? The inevitable consequence of that will be that they will get the best return for their money, but you will still be left with the problem that the areas that need investment will, by nature of the market, be left off the edge.
1117. **Mr A Hamilton:** William, I think that you have answered on the openness of the proposal that is going forward.
1118. **Mr McCulla:** Yes, it will be for the whole of Northern Ireland, but it will be market-led. That is the approach that we are taking. We are also aware that there is office accommodation in regional cities or towns that has been there for some considerable time. There is about 150,000 square feet in Londonderry, 50,000 square feet in Cookstown and 30,000 square feet in Omagh. The market will take account of that. There is space that has not been utilised. We continue to show businesses those when there are opportunities, but, as of now, a lot of that is still available.
1119. **The Chairperson (Mr McGlone):** Are you talking about grade A office accommodation?
1120. **Mr McCulla:** Yes.
1121. **The Chairperson (Mr McGlone):** You say that the market will take account of that but, if the market is just looking at the most lucrative bits, and if they have ignored it until now, they will continue to ignore it. That goes back to our problem with investment.
1122. **Mr McCulla:** Given that our proposal is that we will provide up to 40% financing, the other 60%-plus has to come from the private sector through banks, funders of whatever sort or equity providers. They will bring forward projects that they believe will bring the best return. I understand what you are saying, but that is what will happen. We can only work with the private sector on a solution here, as opposed to trying to make something work that the private sector does not want to deliver.
1123. **The Chairperson (Mr McGlone):** If you strip it all away, it will still be grade A office accommodation for Belfast.
1124. **Mr McCulla:** Not necessarily. It really depends on whether developers believe that there are opportunities in their areas. There may well be in other cities such as Newry and places like that.
1125. **The Chairperson (Mr McGlone):** That is grand. Thanks very much for that.
1126. **Mr Dunne:** Thanks, gentlemen, for coming. I just want you to clarify a couple of points on that. Do potential customers have to be identified and in place for the grade A accommodation before they get funding?
1127. **Mr McCulla:** We would not make that a precondition, but it may well be that other funders will. My expectation is that there will probably be some element of pre-let, but we do not want something that is fully pre-let. We want to see some speculative element as well so that there will be additional space.
1128. **Mr Dunne:** But you want some assurance as well.

1129. **Mr McCulla:** From the point of view of viability and a business being able to service debt and repay, it is important that there are customers.
1130. **Mr Dunne:** Is it applicable to refurbishment of disused buildings, old factories etc or is it what we may imagine as a new build?
1131. **Mr McCulla:** The initial plan is that it will be new build. This expression of interest will test the market and we will learn very quickly what type of projects come forward. We may then have to respond to that, but our initial situation is new build.
1132. **Mr Dunne:** So it is mainly applicable to new build then.
1133. **Mr McCulla:** Yes.
1134. **Mr Dunne:** Is that fair?
1135. **Mr McCulla:** We believe that that is where the greatest market failure is. We were not really looking at fairness, to be perfectly honest. It was about where government needs to intervene.
1136. **Mr Dunne:** Yes, I understand that, but we are aware of disused factories, buildings, warehouses etc that could be refurbished and made into suitable accommodation in various enterprise sites throughout Northern Ireland. Initially, they will not be included. Is that right?
1137. **Mr McCulla:** They will not be included initially, but, as I say, we will see how the market responds. We do not know whether developers will come forward. We will have to review and check and react to changes in the market.
1138. **Mr Dunne:** It is very much market driven. I will change the subject. I have a couple of points. I will not go on too long because most of the issues have been covered. With the reduction in corporation tax, we will see a need for a more skilled workforce. Alastair, maybe you could give us a bit of information on the proposed research project that I understand Invest is working on in relation to developing skills and bringing forward solutions on how we fill the skills gap.
1139. **Mr A Hamilton:** To roll back a little bit, it is now changed environment for bringing the skills proposition into part of our mix for foreign direct investors. You saw that first with the shared skills programme, which has been a very successful joint programme between ourselves and DEL, followed by the academy model where we now propose, through inward investors, that if there are very specific skills that they need for their inward investment, DEL will fund and we will support an academy. We have seen a multiplicity of those academies being developed mainly in colleges and across the country as well. Those have been very successful.
1140. DEL did a piece of research around corporation tax a few years ago, and we have looked at it as well, as you would expect, as we look into the future and the business case looks at the possibility of almost 40,000 jobs being created over the next 15 or 16 years if corporation tax gets devolved at the level that we expect it to. From the comments that I made about the different sectors that we believe this will open up for us, you would expect us to look and see where the skills are for those sectors and what are the colleges and universities doing. Even at apprenticeship level, that will draw us into a straight-from-school-into-work environment without necessarily going through colleges or universities as an in-work upskill capability. That opens up all this opportunity for us to be able to tap into a much wider workforce than perhaps we are doing at the present moment.
1141. **Mr Dunne:** So this research is looking at all that.
1142. **Mr A Hamilton:** It is, yes.
1143. **Mr Dunne:** I think that is important. Weekly, we are told by various business organisations about the skills gap. It comes up regularly here and we are very much aware of it. If we are going to develop and move forward, we need to

- broaden the skills and opportunities to address that issue.
1144. The other point is access to funds. We know that Invest has made a considerable number of funds available. What further can be done in relation to making funds that are accessible to businesses to make progress and to make this place move forward, which we all want to see? We get feedback about banks being reluctant to lend money and take risks. How can that be addressed?
1145. **Mr A Hamilton:** I will make an opening comment. Alongside properties, William is responsible for those funds, and he will probably be able to give you a bit more detail on that. I will reflect a little bit on some of the comments that were made earlier about market failure. Our only reasons for being involved in equity or debt-based funds is because our view of market failure up until three or four years ago was mainly equity-based programmes because that is where the majority of the market failure was deemed to be. As you have rightly said, because of the economic downturn, and, as we all viewed it, the challenges around getting access to more traditional bank funding, we then entered into the two funds that are there — the growth loan fund and the small business loan fund — both of which, and I am sure that you have heard this separately from us, have been very successful out there in plugging the gap for businesses and giving them access to working capital or growth funding.
1146. At present, we see those funds continuing to be delivered. William will give you an update on some of the start-up equity-based funding that has just been renewed with a new programme there called Techstart NI. So, there is a lot of work going on around that space. We will be keeping a very close eye on the future because we do not see ourselves as a long-term debt-based funder. It was put in at a particular time to address the challenge. We hope and trust, as banks normalise in the future, that we can, at some point in the future, withdraw ourselves at least from that debt-based funding element because
- if we get into a situation where we are competing with banks in a normal market environment, that is not the place for us to be. William, I do not know if you want to add anything to that.
1147. **Mr McCulla:** I will just say that the amount of funding that has been going into the market through our funds has been growing year on year. About three years ago, there was maybe £10 million a year going in, and, last year, it was about £30 million. So, it has been growing quite significantly.
1148. **Mr Dunne:** It is a major factor.
1149. **Mr McCulla:** It is. It was primarily the debt-based funds that have added most of that extra funding. That is the growth loan fund and the small business loan fund, but, for the equity funds, we are providing more money as well. For the start-up phase, with Techstart NI, which has been in the market since July 2014, it is doing deals and has got a good pipeline of businesses that it wants to support and provide funding to. We are always reviewing what we do. This year, we will be starting an evaluation of the growth loan fund to determine what needs to come after it when its investment period ends in 2017. We start early to make sure that, if there is a market failure, we continue to address it.
1150. **Mr Stewart:** Chair, if I might add to that from a policy perspective, on some of the findings that are emerging from the work that the economic advisory group is doing for the Department. Whilst no one would claim that access to finance is solved — there are still concerns there that Members are hearing — some of the findings are interesting. When we compare the results of the most recent survey at the end of last year with the earlier survey of firms from a couple of years ago, many more firms are now reporting that they are in growth and therefore have access to finance. There is a much higher success rate, particularly of SMEs, that are applying for finance and being successful.

1151. We are still seeing a difference between the perception, held by many people in businesses, of what the banks' attitude to lending is and where it actually is now. It has moved on. We are also talking about what the economists call information asymmetry: a lack of clear information on the alternatives to traditional bank funding. That is everything from crowd funding, angel funding, and all sorts of terms that I am struggling to get to grips with.
1152. I suspect the economic advisory group, when it dwells on this a little bit more, will probably make recommendations to us, particularly around consolidating progress that has been made on interventions, but also looking at communication and information, and ensuring that firms are aware of all the mechanisms and interventions that are available to them. That is everything from the work of Alastair, William and their colleagues, right through to the British Business Bank, which we work closely with to ensure that its mechanisms are available and accessible in Northern Ireland.
1153. **The Chairperson (Mr McGlone):** You wanted to come in on that, Thomas?
1154. **Mr Hunter McGowan:** I just wanted to say that it is the advisory financial services that we have rolled out now. It is a complex landscape, trying to get funding, and SMEs typically go off and get an overdraft or a bank loan, as do 94% of all companies on this island. We are really trying to get this advisory service going to make them fully aware of all the funds that are available. It is proving to be a great success and we are working closely with Invest NI and all providers to make sure that everybody is aware that there are other more appropriate fits for their financing needs than going through the bank or loans.
1155. **The Chairperson (Mr McGlone):** It would be very helpful, certainly from my own point of view, to go down and have a chat with you sometime about the range of services available. I am sure the other Members could avail themselves of that too, if they so wanted. That would be great.
1156. Thank you for that, Thomas. An tUasal Ó Muilleoir.
1157. **Mr Ó Muilleoir:** Go raibh maith agat, a Cathaoirleach. Gentlemen, it is good to see you again. I was going to scold you for bringing an all-male delegation, but the Committee is somewhat challenged in that respect as well. Congratulations on your achievement, over the last year in particular, to everyone who is here, but in particular Invest NI, notwithstanding the comments and the different points of view that we have around regional opportunities and what we would like to do about them.
1158. I want to chat about narrative. When someone makes a decision to visit Belfast, study in Belfast, live in Belfast or, particularly, to invest in Belfast, it is because they hear a narrative that is exciting. There are two opportunities in my, perhaps simplistic, view. I am quite excited by the fact that Concentrix has bought over the Maysfield Leisure Centre, putting \$15 million of its own money into creating a hub and a headquarters for perhaps 1,500 of its staff; not all its staff. I am more excited again that Allstate have bought a parcel of land, as I understand it, a few hundred yards — on the water, really — behind Maysfield. Both of those are strong statements of confidence in Belfast. I wonder, if that is the case, whether there is a way that we can get the narrative out there in relation to these two investments, or is it just the run-of-the-mill? Maybe it happens all the time and I have not seen it, but I am quite excited.
1159. To finish, Concentrix brought their global board — SYNEX board — over last week or the week before. I thought it was marvellous that these people who are global titans of industry came to Belfast to hold their board meeting.
1160. **Mr A Hamilton:** It is good to have the inside-of-Belfast debate as well, so thank you for that.

1161. **The Chairperson (Mr McGlone):** He will be looking for it all to go into Belfast.  
*[Laughter.]*
1162. **Mr Dunne:** It is a good job Phil's away.  
*[Laughter.]*
1163. **Mr A Hamilton:** You make very strong points. I know that we did this before and I will repeat it here, but I need to be careful because I will probably not get the exact title right. However, one of the strongest things that has happened over the last 12 months, is the very successful award that Belfast got as one of the most business-friendly cities in the world. You know because you have seen our proposition, our pitch to inward investors, many times and we now have quite a strong list, at a Northern Ireland level but also at a Belfast level, in terms of our financial services and ICT credibility and where we benchmark around the world. All those are to the proposition and the very specific areas of financial services, IT or whatever. However, to actually have an award that talks about the place is a very strong additional element to it. These are not awards that we confer upon ourselves. Financial Times FDI Intelligence does the majority of the business-related awards, and the award made to Belfast recently was, again, part of a global awards scheme.
1164. Those are the sorts of messages that make it very much easier for us to propose and talk about this place, whether it is Belfast — I joked a little bit — Northern Ireland or any of the other elements of this wonderful Province that we live in. Those are the messages that make a difference because, as you know, when those investors come, yes, they will pull the majority of their workforce population from the area and the travel-to-work area around it, but they will always seed it with one or two people who they bring from head office, whether it is in Chicago, San Francisco, New York or wherever. They will want to make sure that it is a good place for those people to come and live and for their families to grow up.
1165. I should pay tribute to wider government. The Chair made a challenge earlier about the Executive working as a whole. I pay tribute to lots of other Departments that help and support in that respect, whether it is the Education Department in terms of placing kids into schools as they come with the wider family circle. All that infrastructure works tremendously well. I think that we have a really good, effective, nimble team of wider government organisation that works very effectively to make that happen.
1166. The second point that I make is that case studies are tremendously important. I will not give the names of the companies: you will know them. I can tell you today that we would not have a thriving financial services sector here in Northern Ireland had it not been for the first one or two investments that were made when people took a step, and not only invested once but twice, three, four or five times beyond it. The brand name and the credibility that comes with that says a lot. All these international firms will do their due diligence; do not get me wrong. However, for us to knock the door and say "So-and-so is here" immediately brings down barriers. Potential investors think, "If they are there, they must have done their due diligence; they must be comfortable that it is a good place to be; and they must be finding it a healthy work environment in terms of finding skills and the cost model. Therefore, I will look at it." Those case studies, those clusters that are being built — whether it is in IT, financial services and we are now into the legal services sector and HR outsource capability that we have got through Alexander Mann and other opportunities that are on the horizon — all those helped to profile this place that we live in as an example, and a marketing example, for a place that actually delivers.
1167. I will not take any more time, Chairman, but that is before we go into the creative industry sector and all those other aspects: the tourism environment that we live in, which are all very positive,



culminating in the one that crosses very strongly for us between the tourism and the business sectors, which is golf. I have said to you privately and I will say it here that we have leaders of international businesses who will come here, at the end of May and the beginning of June, for the opportunity to play on one of the best golf courses in the world in the pro-am with some of the best golfers in the world, and we will have time to speak to those people while they are here doing that. That is something that we just cannot buy, and it is a tremendous asset to Northern Ireland to have both the place and the people and the proposition to do that around it.

1168. **Mr Ó Muilleoir:** You have thrown out so many opportunities for us to follow-up and discuss, but I want to try to keep it focused. It is a real testament, to the city of Belfast especially, but to this place when people locate or relocate, often from the States to live here. Last week, I met a man called Jack Butler, of Market Resource Partners. I first saw him in New York five years ago. He moved with his family to Belfast and has 150 people employed in Belfast, and that company is a subsidiary of First Derivatives. It is a subsidiary of an indigenous company: what a great message that sends out.
1169. There is a second opportunity that I see, and I want to pick up on whether any thought has been given to this. I know that the First Minister and deputy First Minister really well receive that narrative when they go out together to the States. I do not want any loose talk; I do not know who they were talking to just before St Patrick's Day. I know that you certainly realise the potential of that.
1170. The other thing is the Boston-Belfast sister city agreement. It is just as well that Phil has gone. *[Laughter.]* I do not think that it is Boston-Enniskillen; it is the Boston-Belfast sister city agreement. The wonderful thing about that — it really cheered me — is that our friends in Northern Irish Connections plus Robert Fitzpatrick of the Odyssey and the Belfast Giants have come up with
- the wonderful success of bringing four college ice hockey teams here in late November. It is the first ever time that college ice hockey has been played outside the US for points in an official tournament. I presume that it is going to bring about £1 million into the city of Belfast. Some of them might go on a day trip down to Fermanagh. With Boston being so powerful, as the Irish-American capital, the colleges capital and the life sciences capital of the US, is any work being done to consider how we can use the sister city agreement — the Mayor of Boston, Mayor Walsh, is so supportive — to try to trigger the sort of success that our friends in the Belfast Giants have obviously scored?
1171. **Mr A Hamilton:** Absolutely. I pay tribute to you for the work that you have done to build some of those —
1172. **Mr Ó Muilleoir:** That is not why I mentioned it.
1173. **Mr A Hamilton:** No, but it is fair, in the day that is in it, to acknowledge that. It is in not only Boston but San Francisco.
1174. Those things are really important to us in terms of building connections. You mentioned Northern Irish Connections. It took us a little bit of time to get to the point where we are now. We had to build the model and refine it a little bit, but, particularly with Andrew coming on board now, we are in a really good place in terms of the Northern Irish Connections model. He is really tapping into some key people across the globe and starting to maximise that affinity with home for a lot of people. I know that some of them are not originally from here, but they have an affinity with here even though they were not born here. Tapping into that is critical, so I would like to do all we possibly can on the back of that Boston-Belfast piece that has been built so successfully.
1175. You mentioned a sector that is really at the heart of Boston. You might have heard what I said earlier in terms of the growth opportunities for us with the CT proposition; it is the health and life sciences sector. We have been very

- successful on a small scale through some of the Connected Health type of opportunities, but CT and some of the work that has been done around building those relationships with that part of the world really are untapped still in terms of what we can do if we can get all the pieces aligned; so much so that we have recently appointed a business development specialist in Boston to start to build and prepare for the future opportunities in the life sciences sector.
1176. **Mr Ó Muilleoir:** Thank you. Apologies for being late for the presentation.
1177. **Mr Givan:** Thank you, gentlemen. Apologies for missing the start of your presentation. How much of an opportunity is the devolution of the small start-up element of business to the 11 councils? In terms of the subregional discussion that people refer to, how much of a driver could be the new powers that councils are going to have to grab hold of some of that opportunity?
1178. **Mr Stewart:** I will start, and perhaps Alastair will come in. It is a hugely important opportunity. If we look at what we know needs to happen and what we want to see happen, firms will move up the escalator of growth. As they move up, they will have different needs for support. At that very early stage, councils will be extremely well placed, because of their local connections and their understanding and knowledge of the local community, to give that early support and assistance. As firms grow and become successful, eventually they will reach the point where they will need different sources of expertise and help that will be provided by Invest Northern Ireland. We need to see them moving up that progression. It is a huge opportunity for councils, but it is a challenge for councils and Invest Northern Ireland to find ways of ensuring that that works well and that we have an effective approach. It cannot be one-size-fits-all, but, equally, there needs to be good learning and a good exchange of information on what is working across all of the 11 super-council areas and drawing on the expertise and the track record that Invest Northern Ireland colleagues have.
1179. **Mr A Hamilton:** I have just a few comments on the back of that. At a practical level, we have found that the structures that have been set up in the preparation for the transfer of that power have worked very effectively for us in starting the engagement and getting ready for the transfer. It has not transferred yet; they have asked us to run it on for the first six months, which we are happy to do. We have given some advice, and I listened to some of the comments from the previous people who spoke to you about the challenge of differentiation with new powers versus getting a common feel. They made that point, perhaps, in reference to planning, and I would make the same point about start-up business. Start-up business activity is marketing-led and is what we would call DMDR, which stands for direct marketing-direct response. I can show you very clearly that, whenever you come off air or come out of the media, your responses reduce, and it is then a direct funnel down to the number of businesses that start up. Once this is broken up and delivered by the various councils, the challenge will be in whether a common message can be delivered, such that you can continue to advertise the programme on TV. If we start to break it up into 11 different flavours of start-up business that will not allow you to have a complete provincial advertising message, you will potentially limit the ability of the programme to deliver the results that you need it to deliver.
1180. The second point that I would make is about the relationships between us and the councils. One of the key things that we have done over the last two years is to develop further the local economic development (LED) funding programme. That is the European funding mechanism that allows us to draw down European money. We put money into it, and the councils put money into it, and you will know that there is a multiplicity of those LED programmes going in all your council areas. We have agreed with the Department that we will continue to fund

LED programmes even after the power transfers to the councils. The reason for that, as Chris has said, is that there is an escalator. Businesses will start small and will grow. As they grow, they will get to a stage that they want access to mechanisms and support programmes that are outwith the councils' ability to deliver. That is fine. That is when they will start to come back into the remit of Invest Northern Ireland as high-growth companies or, potentially, account-managed companies. Therefore, it is important that we maintain those linkages with the councils so that, as those companies grow, we have total end-to-end sight of those companies and we can put our arms around them and start to help them to grow as they move up that escalator.

1181. **Mr Givan:** When you are competing with the 200-plus global agencies for foreign investment opportunities and a company identifies an interest here, will there be a role for the new councils? Will you say to a company that wants to start up that a particular council might be best placed to help them with that? A new company might come along, and it might not be in the Belfast area. It could be in the Fermanagh District Council area or the Lisburn and Castlereagh City Council area. What criteria do you use to pinpoint someone? That could lead to questions about how you are differentiating between councils if you are signposting people to a particular area.
1182. **Mr A Hamilton:** That is the area where I was perhaps cautious on differentiation. Those are what I see as common programmes that are best delivered across Northern Ireland. I will flip the story here; this is where councils can really differentiate themselves.
1183. We have started that work. The key avenues through which it will be driven are the community plans. We are heavily involved with all the new councils across Northern Ireland. In some cases, we have provided matched funding for the development of some of those plans, and, in others, we have put people and resources into the teams that are

developing those plans. Our very clear message is that what the councils need to do in their council areas — with us alongside; we are not standing back but are involved — is to decide how they can differentiate their areas. They need to look at how they put a proposition together in their areas that looks at the anchor tenants that they might already have, the infrastructure that they might have, the connections through colleges and universities and the skills supply that they have, and, perhaps, some connections out into the diaspora. It is about how they can combine all those factors together to make a unique selling proposition for their areas. We have told each of the councils that if they can develop and refine that — some councils are already on track to develop that — we will take that proposition and promote it. If we can match the USP of one of those areas with what a company is looking for, it will make it easier for us to land the project in Northern Ireland.

1184. The last aspect of that that we have done is our joint funding of an FDI app. Quite a few councils have picked up on that, and I think that all of them will do so under the community plan. That app allows them to put all the data and information, including case studies in the area, in one place, and that then becomes a tool that can be used to try to attract investors into the area.
1185. I do not want to go back too much to the debate, but there is a push-and-pull debate in subregional FDI if we take it right down to that level. There is a debate that setting targets will create a push, so there will be a forced element of a number that they need to deliver on. While that may be an element of where we end up, and I have no big challenge around that, provided that it is not at too micro a level, the pull is the important piece. That is what we are trying to stimulate. What is attractive in the area? I have often said to councils, "Do not just take the Invest NI combined view of Northern Ireland and say that that is us". It is not. They should break it down into something that is really unique for

- their area and sectoral, perhaps, to their area. That gives us an opportunity to do it. My commitment, in closing, is that, as I have said to all of the councils, if we can refine and assure ourselves that there is a viable proposition, we will promote it internationally.
1186. **The Chairperson (Mr McGlone):** We are running low on numbers. Máirtín has to go for a meeting, Paul.
1187. **Mr Givan:** I appreciate that, Chair. We have that many long-winded members of the Committee that others cannot get a word in.
1188. **The Chairperson (Mr McGlone):** Sometimes, it is helpful to show up, you know.
1189. **Mr Ó Muilleoir:** I have to meet your Minister. I will not keep Mr Hamilton waiting.
1190. **The Chairperson (Mr McGlone):** We can continue to take evidence. Go raibh maith agat, Máirtín.
1191. **Mr Givan:** I think that that is the right approach, personally. If the north-west complains, as it does regularly, let it put together the proposition and put the demands on Invest NI to say, "Here is our unique selling point. We want you to use that". Rather than saying, "We are Invest NI, and we will dictate that investors will go to a particular area". The new councils have a real opportunity to put forward their proposition and pull the investors to them, and I think that that is where the focus should be.
1192. In terms of the skilled workforce, I was with a few colleagues when we went over to Stuttgart. In that region of Germany, where they do not have any financial assistance to offer to foreign direct investors, it struck me that the skilled workforce very much drives those companies because of the expertise that is there, particularly in engineering for the automobile industry. It seemed to be that their universities were very hooked up with industry, and you had business people sitting on the boards of those academies and so on. In Northern Ireland, how well are we developing that business-led focus in our academic institutions so that we are generating what the workforce actually needs from our schools?
1193. **Mr A Hamilton:** My personal, practical evidence back to you is that I think that we have moved significantly in the last few years. I cannot reflect beyond my time being here, apart from being in industry and trying to recruit people, but significant progress has been made, both in the willingness to cooperate particularly between DEL and us. That is all around the anchor of that Assured Skills programme. Previously, we said to investors that, in essence, they would get financial assistance in the form of a grant for the number of people who they recruited. We are now saying that that funding has reduced in quantum and, as of June of last year, in scale and that we cannot offer it to large companies for follow-on investment. That has reduced, and we have replaced it with another tool that is totally within our remit to be able to drive, which is incentivising and ensuring that we have the right people with the right skills coming out to meet the needs of those investors. That is a message that resonates very strongly. Go and talk to some of those existing investors. Fine, it is nice to get grant assistance, but that will disappear. To get the funding to drive the skills or the availability of skills is a much, much more attractive, or what we call sticky, proposition. It catches people and draws them back here. I think that we have come a long way. I will maybe leave Chris to talk about the potential for the future. I am a very strong advocate of the decision that this place has taken on the reduction of the number of Departments to more closely align skills, enterprise, trade and investment into a Department of the Economy, because I think that that will take us to another level and another stage.
1194. **The Chairperson (Mr McGlone):** I will pick up on Paul's point. One of the things that we discovered in Stuttgart was that the academic curriculum is different. That needs to be done in the FE sector. I am interested to hear from

- you on what you are doing with the Department of Education over there. Secondly, I know that this relies very heavily on the management of individual schools. I have been to businesses where connectivity between schools and local businesses is good. I have also been to thriving businesses that are doing extremely well, where there are local schools that have very good qualifications coming out of them and never the twain shall meet. They are just ships in the night, and they are only about four or five miles away. You have a really good employer that requires a lot of skills, yet the local schools do not even think of visiting that employer. One is a practical level, and the other is academic and curriculum development.
1195. **Mr Stewart:** You are absolutely right. I echo what Alastair said in praising the excellent work that has been done, particularly by colleagues in DEL, in building those linkages with universities and FE colleges. It is observably true that they are much more responsive to the needs of industry and businesses than has, perhaps, been the case.
1196. There is considerably more potential with the Department of Education now. I hasten to add that that is not a criticism of that Department but a recognition that there is more to be done by DETI in ensuring that we influence as far upstream as we need to go. You are quite right: it does not start in just further or higher education. It starts in curriculum policy, careers education and how parents think in influencing the career choices that children and young people make. There is room for more systematic policy engagement between DETI and DE. That work is under way, and we would expect to see that reflected in the Programme for Government.
1197. You made the point about management leadership in schools. That is vital. I spent seven years in that Department. All the research shows that the effectiveness of education depends, first and foremost, on the quality of teaching in the classroom and the quality of leadership in the board of governors.
- The board of governors is an extremely important and challenging role. It has been the policy of that Department for some years to encourage more participation on boards of governors by business representatives — people with knowledge, skill and experience of the world of business — to start influencing how the education system operates. As well as being important in its own right, that is the provider of human capital for our economy. If it is not responsive to the needs of the economy, we are one-nil down.
1198. **Mr Givan:** How are we fostering businesses that we already have to come together in a partnership or cluster to develop technologies? I appreciate that some businesses would not want to reveal trade secrets about a particular skill, but what struck me when we were in Stuttgart was the number of partnerships. Companies were all chipping in so that technologies could be developed that benefited their own business. How is that being developed in Northern Ireland?
1199. **Mr Stewart:** There is huge potential there. There are a couple of examples from the important health and life sciences sector.
1200. The Department recently had the foresight study report of our science advisory MATRIX panel, which picked out areas, particularly in health and life sciences, with the greatest potential for economic growth. We need to take that forward with a mechanism that will be known as the health innovation life sciences (HILS) hub. That will be a partnership of the Department, education, industry and academia. It will be the space within which we will develop the communications so that where the economy or public service identifies a need, partnerships can be put together to respond to it.
1201. We have a small-scale example of that that works very well. It is called the NI Connected Health Ecosystem, which focuses on Connected Health rather than broader health and life sciences. It has very successfully brought together

- a significant number of commercial firms with the buyers, if you like, in the health and social care service, and with academia.
1202. This is anecdote rather than evidence, but a number of times I have witnessed conversations between someone in health and social care and someone in a firm, and it goes something like, “I never knew you made that”, and the other side of the conversation is, “Well, I never knew you needed that”. Great progress could be made there. HILS hub is taking that to the next level and pairing the needs of society with the ability of academia and the economy to deliver.
1203. Another example is that Northern Ireland has been shortlisted for the Precision Medicine Catapult, a technology and innovation centre with UK-wide investment. Precision medicine is encapsulated by what Randox does. It uses leading-edge diagnostics to tailor medical interventions to individuals, as that is much more successful. As well as being hugely important in health, it is a multibillion pound business that is growing across the world. The catapult programme will incentivise this and other developments across the UK. In recognition of the track record capability that Northern Ireland has, I am pleased to say that we are down to the final shortlist on that. We will get the result of that after the election and, hopefully, we will be successful and get the catapult. Even if we do not get the overall catapult, it will be in a hub-and-spoke model, which will give us real opportunities to promote further development with academia and our leading indigenous firms alongside one another in Northern Ireland.
1204. **The Chairperson (Mr McGlone):** OK, thanks very much. That concludes our evidence-gathering session today. We have other questions to ask, but we cannot get into them today. Will you be happy to respond to those in writing?
1205. **Mr Stewart:** Absolutely; we will be happy to do so.
1206. **The Chairperson (Mr McGlone):** That is grand. Thanks very much indeed. I hope that decisions will be made shortly that will set us all on course.

## 28 April 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

### Witnesses:

Mr Eamonn Donaghy      *Grow NI*  
 Mr Carl Whyte

1207. **The Chairperson (Mr McGlone):** I welcome Mr Eamonn Donaghy, the spokesperson for Grow NI and the head of tax at KPMG Belfast; and Mr Carl Whyte, a member of Grow NI and a partner with MW Advocate. Thank you for coming today. It is good to see both of you again. As you are probably aware, the format is that you make an opening submission, after which there will be a question-and-answer session with Committee members.

1208. **Mr Eamonn Donaghy (Grow NI):** Thank you, Mr Chairman and members of the Committee. I know that the Committee is very busy, so it is great that Grow NI can be here to present to you today. I spoke to the Committee for Finance and Personnel in February 2008 and outlined the need for a low rate of corporation tax. Seven years later, that need still exists but, hopefully, some progress has been made on its delivery.

1209. Grow NI has been in existence since 2011. For the first time, over 20 Northern Ireland business organisations came together to lobby for the introduction of low corporation tax. The members of Grow NI come from big and small businesses and represent thousands of companies and unincorporated traders that employ over 200,000 people in Northern Ireland in the private sector. This Committee

represents 10% of MLAs. Unfortunately, not every Committee member is here today, but it is a very important Committee and is charged with considering the key economic matters that are pertinent to Northern Ireland. It is therefore vital that you have a clear understanding of the impact of a low rate of corporation tax so that it can act as a centrepiece for the economic future in the North.

1210. The Corporation Tax (Northern Ireland) Bill is now law: the Corporation Tax (Northern Ireland) Act 2015. I have brought a copy of the legislation with me today. I am not sure how many copies there are in Northern Ireland, but I got it from The Stationery Office (TSO). It is in law, it exists and it is a reality. Indeed, this very inquiry is a direct and tangible result of the legislation, and I commend the Committee for holding it.

1211. First, I want to make it very clear that corporation tax is not a silver bullet and not the only answer, and it is certainly not a cure-all. However, it is absolutely the centrepiece around which our economic future and direction of travel must be based. Yes, there are lots of other things that need to be improved, introduced and actioned, and I will come to some of those shortly. However, the low rate of corporation tax is far and away the most effective and headline-grabbing lever that we can put in place to create a step change in our economy. Low corporation tax is not about saving tax for large companies. It is not about turning Northern Ireland into a tax haven. Low corporation tax is about three things: jobs, jobs and jobs. Low corporation tax is, of course, aimed at attracting foreign direct investment. However, it is also designed to assist local companies and businesses, through not only making a direct tax saving but providing opportunities to supply to, learn from and spin out of FDI.

1212. The Corporation Tax (Northern Ireland) Act 2015 is only the first hurdle in a two-hurdle race. It is great that the first hurdle has been jumped, but there is a second hurdle, and that is to put the legislation in place. We know that the legislation could be switched on from 1 April 2017, but that would require the Assembly to do three things: set a Budget; set a date for the implementation of the Act; and set a rate at which Northern Ireland charges corporation tax.
1213. Does low corporation tax still really matter? Yes, it does. The UK Government over the past five years have lowered the corporation tax rate from 28% to 20%. That has created a significant amount of inward investment in the UK. The Irish economic regeneration is in full swing. The Minister for Finance, Michael Noonan, has placed corporation tax at the centre of his economic policy. I believe that he will be making a speech later on this afternoon. He said recently:
- “Ireland will play fair but we will also play to win.”*
1214. That is a key comment from our nearest neighbour. There is also a significant amount of focus on corporation tax by the Organisation for Economic Co-operation and Development (OECD). The base erosion and profit-shifting (BEPS) project, a massive ongoing international project, is focusing very much on the international aspects of corporation tax. Tax plays a huge part in international business, and low corporation tax regimes with activity taking place in their jurisdiction will be the ultimate winners of the future race for competitive foreign direct investment.
1215. We are wasting very precious free advertising time. I will say that again: we are wasting very precious free advertising time by not setting a date and a rate. Invest Northern Ireland cannot sell the low corporation tax incentive to foreign direct investment until we have a date and a rate. Foreign direct investment that is already in Northern Ireland and local businesses will not make strategic decisions until a date and a rate are agreed.
1216. The impact that corporation tax reduction will have on the Northern Ireland Budget and block grant does need to be considered. It needs to be negotiated, and negotiated hard, and it needs to be agreed. However, it should not be seen as a cost to our economy; rather, it should be seen as an investment in our economic future. Austerity will continue in one form or another after the general election, and it will not be as a result of low corporation tax. Austerity cuts will not produce increased economic activity. However, reducing corporation tax will give us the best chance to rebalance our economy, deliver investment and create long-term, sustainable, well-paid jobs. We are very likely to generate a good return from our investment. There are no guarantees — there never are in business — but there is excellent precedent south of the border to show that low corporation tax can prove a very significant winner for economic matters.
1217. What do this Committee and other Assembly Committees, as well as the Departments, the Executive and the Assembly, need to do? We need to put the economy at the centre of everything that we do. We need to put in place both short-term and medium-term plans to deliver economic growth, and, most of all, we need to set a Budget and a date and a rate for the reduction of corporation tax. To be very clear, we have never had a better chance to control our economic destiny. Although there may be lots of challenges ahead, we should grab that economic lever and create a step change that will allow us to rebalance our economy and bring greater prosperity to everyone in our society.
1218. This inquiry is looking at the issues that can make a difference, assuming that a low corporation tax rate is put in place. I refer the Committee to the Grow NI submission to the inquiry. In summary, it recommends that the Committee focus on a handful of short-term key proposals



- that can kick-start meaningful and effective change.
1219. Carl and I will be glad to answer any questions that you may have about those suggestions and anything else on the issue.
1220. **The Chairperson (Mr McGlone):** Thank you very much, Eamonn and Carl, for being with us. You are taking us right into the area of what the inquiry is about. Up until now, we have heard from various key stakeholders about the variety of needs, or, if you like, all the pieces of the jigsaw that have to come together. You are right to say that there is no silver bullet. The pieces of the jigsaw could be infrastructure, skills or whatever. A key element of what we are hearing, including the experience south of the border, has been the joining-up and integration of policies in a strategic way. You touched on some of them. Imagine you were to ask the Executive this: how are we going to get it together to make sure that we take best advantage of a new and changed situation, which is the best opportunity that we have had for quite a while to change our economic destiny. How would you suggest that all those key areas and policies be integrated? Take it a stage further: what are the key elements of the jigsaw that need to be put together to form a strategic route forward for the Executive?
1221. **Mr Donaghy:** A while back, I was made aware that Northern Ireland has had 10 major economic studies since the 1950s. Each of those had a considerable number of actions, suggestions and recommendations. I rather suspect that a lot of them never got off the shelf and thus were not implemented. I think that there is sometimes a danger that we could give ourselves a long shopping list of things to do, all of which sound very plausible and very good, and each does have a certain merit. However, the reality is that life is very busy, difficult and complicated. We need to focus on key, specific issues. You have asked me what those are. I refer you to appendix I to the letter. That is what, I think, could make a difference. I do not believe, and I certainly would not be foolish enough to say it, that it is the be-all and end-all. However, the idea is to try to focus on making foreign direct investors very welcome in Northern Ireland, not just because Invest Northern Ireland will roll out the red carpet but because it will genuinely make them feel welcome. I support the idea of fast-tracking the likes of planning permission, visa applications and all the departmental involvement that is required to bring in foreign direct investment. One of the suggestions is that there should be a form of cross-cutting committee, or a specific action team, that can be designed, at very short notice, to be available to large multinationals that want to come to Northern Ireland in order to deal with all their issues in a one-stop shop. That type of thing would be very attractive.
1222. I am very mindful of what happened in the South of Ireland. I talk to colleagues who are my partners in Dublin of the days, not so long ago, when, almost at a moment's notice or within 24 hours, you could have a couple of Ministers and possibly the Taoiseach or Tánaiste in a jet and going somewhere foreign to meet the relevant company that was considering investing in Ireland. Our First Minister and our deputy First Minister do travel a lot, but, again, this is about the backup that goes with that. It is the desire to say that Northern Ireland is open for business and that we will do whatever it takes to make sure that foreign direct investment is welcomed.
1223. **The Chairperson (Mr McGlone):** To tease out the idea of a cross-cutting committee, are you suggesting that it should be a ministerial committee with senior officials on it that comes together when an opportunity arises? How would you see that working?
1224. **Mr Donaghy:** The implementation of a cross-cutting committee and how it would work is obviously beyond the remit of what I can comment on. However, the idea is to have a committee that sets out guidelines and a strategy so that, when the door is knocked or there

- is an opportunity in the offing, there will be a strategic plan in place for how those people can be dealt with; and so that there is immediate contact available to the relevant Departments and services that are available. Without having to suggest to potential foreign direct investors that they need to speak to this, that and the other person, and good luck to them, we could have a coordinator who will say, “We will speak to those people for you and set up meetings so that all that you have to do is turn up”. That type of thing would make it a much more attractive and positive experience when a business considers Northern Ireland.
1225. **The Chairperson (Mr McGlone):** All right. That is grand. Thanks, Eamonn.
1226. **Mr Flanagan:** I have no questions at the moment, Patsy.
1227. **Mr Dunne:** Thank you for coming, gentlemen. I apologise for keeping you late. I just want to make a couple of quick points. The skills gap always comes up, and the Committee has received numerous representations about it. You talk about the future needs of employers and the need to be more focused on current and future needs. How should that be developed? Should there be a cross-cutting effort among the various Departments? What are your thoughts on that?
1228. **Mr Carl Whyte (Grow NI):** Let us take a step back. If employers have the skills that they want, the goal is to create as much employment as we can. Look at what happens in the South. Eamonn talked about having a cross-cutting team. There are towns in the South that 20 years ago had no major employer. Now, an employer comes in and speaks to the enterprise agency, and a suitable course is started in the local regional college or institute of technology the next year. Dell in Limerick is a good example of that. That has worked here, and there are examples. I know that the South Eastern Regional College (SERC) now has a film school because we have such a flourishing film industry, so the template is there. However, there needs to be a quicker response to the needs of employers to address those gaps, especially outside Belfast. You will be familiar with industries in which there is already a skills shortage. The IT sector is a good example. If we are to get major employers to locate in Omagh, Enniskillen and other towns, we are going to have to have employees who are trained quickly and effectively by the colleges in those areas.
1229. **Mr Dunne:** Having the Department of Enterprise, Trade and Investment and the Department for Employment and Learning working together, which is probably going to happen, will be a positive development.
1230. **Mr Whyte:** Yes. An OECD report last year complimented them on how they have worked together, which is promising. The more that we get of that, the better.
1231. **Mr Donaghy:** May I make one comment on that, Gordon? I am aware that several of the major universities in the Republic have Industrial Development Agency (IDA) members sitting on their board. Although that does not solve all the issues that there may be, there is a much closer connection between the universities and the IDA, which is out trying to find employers and business. Far be it from me to say what should happen, but there is a clear example of things that work. I stand to be corrected, but I am not aware that that happens in the North in our two universities. You cannot have too much communication and connection between the likes of Invest Northern Ireland, DETI and our universities, because they are going to be the supply chain for FDI. We need to have well-educated graduates, but ones who are going to be relevant to the employers that we are trying to get in.
1232. **Mr Dunne:** That is true. We all appreciate that. We have seen from various presentations by the universities the work that is done. There is still a gap in the number of graduates who are going in the right direction — into industry — and are interested in business development. A lot of others

- go into the other professions, such as the law, teaching, and so on. We still have a barrier to break down to get people to work in industry. That is still the major barrier that needs to be addressed.
1233. **Mr Whyte:** One of the suggestions is that there should be some type of subsidy for graduates to study STEM subjects. That needs to be priced, but you are right when you say that people go into the traditional fields of law and medicine. People go into those jobs, and that is something that we need to look at. There is also careers advice for adults — people who choose to switch mid-career. Companies come here to employ people of all ages, including people who perhaps find themselves wanting a new job.
1234. **Mr Donaghy:** I have two children. One is doing A levels; one is about to do some GCSEs this year. Never have 16-year-olds had as much information available to them as they have today. They are bombarded with information. The difficulty is that it comes from all sorts of sources, without an awful lot of direction. Perhaps we should be saying to our 16-year-olds, “These are the career choices that are available to you”. Not in an old fashioned way, but by making the choices real to them. We need to try to encourage a lot more kids into STEM subjects and the jobs of the future, and do so at a national level, through a course that we must put them through and that is designed to give them an understanding of what is going on in the world. They need direction. They may seem to have a lot of knowledge, but I do not think that have a lot of direction. That is key. There is no point in saying that we need more STEM students to do those courses if the kids do not know why.
1235. **Mr Dunne:** OK, gentlemen. Thanks very much.
1236. **The Chairperson (Mr McGlone):** I will pick up on that, because the issue has cropped up, and I am sure that other members have found it to be the case when they visit businesses. The issue is connectivity and the responsiveness of the curriculum. You mentioned STEM subjects. I do not know whether business acumen or entrepreneurial skills could be put into the curriculum as well. Not every school has that connectivity. I visited a business recently — a very successful business — which had no connection at all with the local schools just four or five miles away. I would have thought that those schools, which are excellent academically — this is well-paid work we are talking about, although it calls for a different set of skills — would have wanted that connectivity at a practical level, aside from to develop the curriculum. People can pick up that practical knowledge, see things working and say, “I would not mind that job”. That does not seem to be filtering down to some schools. I would have expected those schools to have tuned into the economic activity in businesses in their area, but that connectivity did not seem to be happening. The curriculum is one thing, and another is the practical desire. It could be your young lad or girl coming along to a business and saying, “I like that”, and getting bitten by the bug. However, if young people are not bitten by the bug earlier on, they wonder what it is, and, as a result, they might miss opportunities to develop themselves in a career that would be of more benefit to them than the one that they might wind up doing.
1237. You are the practitioner, Eamonn, and, Carl, you are a seasoned observer of business, too. Are there any practical measures that you see out there? One is very practical, while the other is academic, but how do we arrange that mainstreaming of connectivity to ensure good practice throughout?
1238. **Mr Donaghy:** It is very easy to say that it is up to politicians to try to encourage the Department of Education to make that happen, but I believe absolutely that business needs to be involved as well. You will find a very willing partner in business, which needs fresh blood to come in. However, there should be some form of coordination so that schools

are encouraged to make the approach, and businesses should be encouraged to accept the approach. Again, it is about trying to give 16-year-olds a better understanding of how the world works, not just through Facebook or Twitter, or whatever form of social media they are using, but through meeting and talking to real people. I have spoken to students at my old school on several occasions, and they have a thirst for knowledge and want to know what is going on in the world. When they find an interest, they want to engage. That is something that we, as a business community, need to be involved in. Schools should be encouraged to take that up in order to give children at 16 a much better idea of what is available to them and what the likely timescale is for getting there, be it through university, higher education or direct apprenticeships. They need to have that made available to them if they are to understand fully what is there. Although it is there today, it could definitely be improved.

1239. **Mr McKinney:** I have just two points to make. You are pointing to shorter-term measures primarily, but how much damage is done to the corporation tax offer and its potential by not doing some of those short-term things?
1240. **Mr Donaghy:** If I have one message today, it is that I would like the Corporation Tax Act to be implemented. That is the key thing. There is more damage being done by not implementing it than by anything else. There is no silver bullet for the short-term issues; there is the hard way and the harder way in economic regeneration and rebalancing our economy. It is not going to be easy. Mistakes will be made. There will be an element of trial and error. We can look at successful countries, where certain things have been implemented. We do not have to look too far to see what the Republic is doing. They have not got it right all the time; they have made mistakes as well. There were issues with their economy that we do not have. If you ask me what the most important thing is, it is all about getting the right
- people. I think that we all recognise that.
1241. **Mr McKinney:** I understand that, but, at the same time, it is in the Act. Politicians here lobbied for it, and it will get to the point of implementing it. It is not about whose responsibility it is; you have identified that the things that should go alongside it are not happening. How do they begin to happen?
1242. **Mr Donaghy:** I presume that the Committee will make a recommendation at the end of its inquiry. You are 10% of the MLAs in the House. You are our political representatives and leaders. It is about being able to say, “We want this to happen”, and the various Departments being asked to make the recommendations happen. It is much easier to get three or four actions running and rolling than it is to get a big long economic study out and get things done. I am not saying that an economic study is a bad thing, but it should not be the primary focus. If we are going to get this on 1 April 2017 and we want to be ready to go on that date, the four or five short-term positive actions are important. I am not saying that those are the right ones; I am sure that stuff has been missed. There are other things that you have heard in Committee, but, if you ask me what the most important thing is, I would say that it is about education and people and putting those first. The rest of the stuff, such as the cross-cutting committees and making ourselves welcome and available, is useful. It is general housekeeping. There is no rocket science in anything that we have said. Sometimes, stating the obvious and getting the basics right is the most important thing that we can do.
1243. **Mr McKinney:** This is a kind of chicken-and-egg question — you touched on it a bit — how do we attract companies here if we have not done the work to underscore what is needed? At the same time, how do we know specifically what we need to do in terms of educational needs and the speed with

- which we should move if we do not know what companies want?
1244. **Mr Donaghy:** I heard a great story from the late Sir George Quigley; he talked about one of the companies — I think that it was a German-based manufacturer — that came to Northern Ireland back in the late 1960s, when the economic regeneration of Northern Ireland was taking place. It was encouraged to come to Northern Ireland, and it liked what it saw, but the people were not quite ready, so it took two plane loads of them away to Germany for three months, trained them there, brought them back, and the factory was up and running.
1245. I am not saying that that is how we achieve what we need to achieve, but, sometimes, there is a fear, and people say, “Oh, we mightn’t be ready, so we shouldn’t do it”. In other countries, and especially south of the border, they have sometimes said, “Yes, absolutely; we’re ready. We’ll have it ready”, and then they leave the room and go, “How the hell are we going to do this?”. There is an element of, “Let’s make ourselves available. Let’s make ourselves open. Let’s promise what we need to promise and then worry about the delivery”, as opposed to worrying about the delivery and subsequently missing out on the opportunity.
1246. **Mr Whyte:** There are examples of where that has happened. CME Group from Chicago came here. It has the training skills. First Derivatives, which is in Newry, is a home-grown enterprise; it has worked with Invest Northern Ireland on training. Some of that work is being done; it is just about it being done with a more systemic approach, where we match the target sectors with the training here. That is something that needs to be addressed. It needs to be very focused; we need to say, “Here are the sectors we’re going to attract. Here’s how we can provide the training for those sectors”, and lever off where that good work has already taken place, which it has. We are not starting at zero; there are good examples already.
1247. **Mr Ó Muilleoir:** Eamonn and Carl, it is good to see you. Thanks very much. Sorry for keeping you waiting, and then keeping you waiting again when we went into the Assembly. I heard the Scottish Deputy First Minister speaking last week about the transfer of income-tax powers, but he then said that they are not ready to implement the income-tax powers that they have in Scotland because he wants more; he wants to get it right. I am really asking about that in relation to corporation tax. We are also trying to get the date and the rate right. I presume that you would agree that the way in which the British Government put it on the table — which is that you like it or you lump it, that the income tax raised by the actual job goes to London and that the National Insurance raised through extra employment goes to London — should be negotiated and negotiated hard with the new Government, rather than just folding.
1248. I say that because all the parties, almost without exception, across the Assembly supported the transfer of corporation tax powers. There is a willingness and an understanding that it worked in the South and that harmonisation would be good for the economy. However, at the same time, there is a worry among the public that, if we do not get it right, our public service budgets will be hit. This morning, I was in the Beechcroft inpatient facility, which is one of the wonderful Belfast Health and Social Care Trust facilities in Belfast for young people and children with complex mental health disorders. I think that we are doing a really good service there. No one would suggest that we would introduce corporation tax and lose money for services like that. We will be entering into negotiations with the new Government — please God it will not be a Tory Government — after the election. In those negotiations, how do you think we should make a strong case for the most favourable conditions for the introduction of corporation tax? What are the arguments that we should bring to the table? The Deputy First Minister of Scotland obviously is bringing arguments to the table around income tax. What

- arguments do we need to bring to the table to get the very best deal?
1249. **Mr Donaghy:** Thank you for that, Máirtín. To answer that question, we have to take a step back and look at the European structure that this is based on. There is a requirement under European law to say that, in order to devolve a tax to a specific region of a member country, certain criteria are laid down through a case known as the Azores case. There are three criteria. The first is that there has to be a regional Assembly with which laws can be made, and we have that and have always had that. Secondly, that regional Assembly has to have the power to do that, and, guess what, we now have that power to do it. Treasury regulations have to be put in place that requires a budget to be set, but let us assume that we can get to that. We have ticked two of the three boxes, so what is the third box? The third is that the region itself has to pay for the impact on the decision that it takes. This is not a British Government-led issue, and it is not an issue that has been devised as a means of preventing us from doing it. The European requirement is that, if we decide to lower the rate of corporation tax, the impact has to be through the Budget of the region that is doing that. This is a European requirement. It is not a British law requirement and it is not a Treasury requirement. It is a European regulation.
1250. **Mr Ó Muilleoir:** There are different arguments for the Azores rule as well. That is not accepted. In the stuff that I am reading, there are still grey areas.
1251. **Mr Donaghy:** Certainly, in the years that I have been there — I would be interested in discussing that with you.
1252. **Mr Ó Muilleoir:** It would be interesting for the British Government to say that it was not their fault and that it was Europe, but that is not my understanding.
1253. **Mr Donaghy:** You must know something that I do not know, and I have been looking at this for a long time. I am quite happy to discuss it with you now or later. Maybe later —
1254. **The Chairperson (Mr McGlone):** I think that we will leave that till later.
1255. **Mr Donaghy:** The point that I am making is that there is a cost association. If we reduce our corporation tax, it is likely that the total amount of corporation tax lifted will initially be reduced. The hope and expectation is that there will be a significant increase in the economic activity and the profits generated by companies that are already here and those that will come to Northern Ireland, and that the reduction in the rate will be offset by the increased profits that will follow as a result of the greater attractiveness that Northern Ireland will have. I do not think that anyone is going to say that corporation tax will pay for itself overnight. However, in the four or five years in which the Irish Government reduced their rate from 32% to 12.5%, each year that they made the reduction, they actually lifted more corporation tax than the previous year, even though they had a lower rate. So, I would not underestimate the power that a lower corporation tax rate will have in attracting more profits to Northern Ireland.
1256. Your question deals with the secondary issues. There will be more PAYE, more National Insurance, and more VAT. The current British Government have said that they do not want to discuss that, because they believe that Northern Ireland is already in a subvention position. It has more subvention per capita than any other part of the UK, so it is not unreasonable, in my view, for them to say, “Is there any way that we can start to look at reducing that”. Now, I am not necessarily in agreement, but that is an explanation for that. I believe that Northern Ireland’s civil servants, Ministers and, ultimately, the Assembly, have to agree what the price will be. That final discussion has to take place. I certainly do not want Northern Ireland to pay any more than it has to, but I accept that there is a cost to doing this. However, as I said earlier in my presentation, I do not see this as

a cost. It is wrong to look at this as a cost. This is a business investment. I would like to quote my friend Richard Ramsey, who said that there has been an awful lot of talk about the £300 million that the corporation tax cut could cost, but not as much talk about the £23 billion that is spent in Northern Ireland every year. When we look at how we spend our public money, we need to put things in context: this is not a cost; it is an investment. In the context of what is spent in Northern Ireland, it is a reasonable sum to consider investing in our future.

1257. **Mr Ó Muilleoir:** To come back on some of that, with your permission, a Chathaoirleach, when you talk about £23 billion, are you including the £1 billion-plus for British defence? Yes or no?
1258. **Mr Donaghy:** I do not have the figures in front of me.
1259. **Mr Ó Muilleoir:** It is over £1 billion.
1260. **Mr Donaghy:** OK, it is a contribution.
1261. **Mr Ó Muilleoir:** Of the £23 billion, I think that approximately £1.2 billion goes on defence.
1262. **Mr Donaghy:** I absolutely think that it is for the Members of this Assembly to determine how the money that is allocated to Northern Ireland is spent. We are part of a bigger country, and there is a budget for the various aspects for a bigger country. I do not want to break down the individual elements.
1263. **Mr Ó Muilleoir:** No, but I want to talk about the principle. When you talk about £23 billion, you are talking about £1 billion-plus for British debt repayments; you are talking about money for the national museums; and you are talking about money for foreign wars and so on. We spend £10.5 billion on services here, and certainly that comes from Britain, but, we come back, Eamonn, to your proposition that we are beneficiaries of the economic and fiscal policies being foisted upon us by London. Some of us believe that that is not the case. I think that it would be wholly unreasonable for the British Government to say, at a time when this society is coming out of recession, “By the way, that £10.5 billion is going to be cut even further”. We could have a philosophical or political discussion about the impact of the block grant, but to suggest that it would not be unreasonable for whoever is in power in the next Government to say, “We are cutting your block grant further”, is, I think, wholly unreasonable, because that would just make economic recovery more difficult.
1264. **Mr Donaghy:** I absolutely agree that I do not want to see Northern Ireland’s funding cut, and I look forward to seeing what your analysis is, but I have looked at this for 10 years, and the Azores judgement is very clear about having to pay for the cost of doing this. Unfortunately, this debate gets played out in the media about the £300 million. They claim that, if we lose £300 million, it will be an economic disaster for Northern Ireland. No matter how it is spent, £300 million is just over 1% of a £23 billion budget. If you ask any businessman whether he is prepared to spend 1% of his turnover on a marketing campaign that may and should improve his profits, I think that most business people would say “Yes, I think that that is a good deal”.
1265. We will get austerity cuts, whether we like it or not. There will be difficult times ahead for us, whether we like it or not, no matter who is in charge in Westminster. Northern Ireland is 1.5% of the UK: we do not matter as much as Scotland, Wales and England, and we are going to have a tough time. What I and the business community are proposing is an investment into our future. The prospect is that putting this money in today will generate more money, economic propensity and jobs for our young people. That is what we are looking at. This is not a cost: it is an investment. I urge this Committee to do everything in its power to make that investment, to try to create those jobs and to create better economic prosperity for our whole society.

1266. **The Chairperson (Mr McGlone):** I think that all parties in the room have subscribed to that. A Mháirtín, an raibh tú —
1267. **Mr Ó Muilleoir:** No, not at all. I want to thank Eamonn again. We have had many robust discussions about this over the years. We all want to make an investment, but investments that you make in business have to be wise and have to grow. That is why the Chair is convening this inquiry; we are looking at growth and we are looking at how corporation tax will help that in the time ahead. I think that we are allies in this work, but, I do not want to go to Beechcroft in-patient facility and say, “We are losing £300 million in the hope that this investment will pay off”. We cannot throw in the towel to whoever is in London and say, “You can savage the block grant, and we are going to invest in the future”. I think that people here are willing to take a risk, but we do not want to risk our public services. That is me finished, Chair, definitely.
1268. **Mr McKinney:** Just when he is making a political point, I want to counter by saying that Máirtín’s party, of course, voted for the Budget, which would undermine —
1269. **Mr Flanagan:** What has that got to do with anything?
1270. **Mr Ó Muilleoir:** That has nothing to do with anything.
1271. **The Chairperson (Mr McGlone):** Hold on a wee minute; we will not get into that. We will stay focused on the inquiry. Carl, are you looking to say something?
1272. **Mr Whyte:** There is one point, which Eamonn referred to, on tax take. If you look at the evidence from 1994 to 2005, you can see that, yes, there is a risk, but, in the Republic, even though the corporation tax rate was cut, the tax take from the sector that benefited most increased dramatically over that decade.
1273. **Mr Ó Muilleoir:** Yes, but they kept the income tax and the National Insurance.
1274. **Mr Whyte:** No, I am talking about corporation tax. I am not talking about income tax or National Insurance.
1275. **Mr Ó Muilleoir:** We all accept that corporation tax will increase, but we are trying to get right —
1276. **Mr Whyte:** No, sorry, the tax take from corporation tax.
1277. **Mr Ó Muilleoir:** It has to increase, but we have to make the argument to London that we cannot forgo — we cannot throw in the towel, Eamonn, that is what I am saying.
1278. **Mr Donaghy:** I will just make one point in relation to that. I do not disagree with Máirtín in relation to it. The one point that I will make is that, yes, the final amount or quantum that is involved is still to be negotiated. I believe that there are people here in Northern Ireland who will be able to negotiate that very well, but we do have to recognise that there will be a quantum that is needed. The final amount does need to be looked at very carefully, but it is to comply with EU law, and it will not be zero, despite what we think.
1279. **The Chairperson (Mr McGlone):** OK; thanks very much.
1280. **Mr Flanagan:** Thanks for the presentation. It is good to have a discussion about corporation tax as opposed to merely accepting that we are going to have a new rate of corporation tax and then asking what we should do. It is important that we have this discussion, so it is useful that you are here today.
1281. I want to go back to the issue of secondary benefits, which Máirtín raised, because it is a fundamental issue. There is a huge campaign from business representative organisations, including yours, to set a date and a rate. Whilst we are completely sympathetic about that and completely understand why you are doing it, can you at least accept why we are reluctant to do so until we have explored every avenue with a new British Government to try to get the best deal that we can?



1282. **Mr Donaghy:** I think there is a time to negotiate, a time to decide and a time to actually take action. As I said, I have personally been involved in it for 17 years. I have sat in front of the Finance and Personnel Committee —
1283. **Mr Flanagan:** Sorry; I was listening to ‘The Stephen Nolan Show’ today, and Mike Nesbitt said that the UUP came up with the idea in 2011. How have you been working on it for 17 years?
1284. **Mr Donaghy:** I have been working on it for 17 years. I am not going to get into the political comments.
1285. **The Chairperson (Mr McGlone):** As you get closer to an election you are going to hear those claims.
1286. **Mr Donaghy:** I can speak about what I have been involved in. I have been doing it for 17 years and have sat in front of various Committee, including the Northern Ireland Affairs Committee in 2006 and 2007, and the Finance and Personnel Committee. I have been at it for a long time. There is an element of frustration, not just for me but across the business community. We have clearly stated that it is the right thing to do. We are business people who look at things analytically. We look at investment and the returns on investment. We are prepared to take business risk, etc.
1287. I understand that this is a public issue; public money is being invested. The point I am making is that it is not a cut. People talk about £300 million as if it can just disappear. Let us be very clear. The £300 million will go into the private sector. It does not disappear and go off to London; it goes into the private sector in reduced corporation tax. We are now asking ourselves where that £300 million is going to go. In the vast majority of cases, it is going to be reinvested within the businesses that save that tax. That reinvestment is going to generate more jobs and create more activity.
1288. I understand the point that Máirtín makes about the secondary taxes, and, yes, it would be great if we could lift our secondary taxes, but even if we do not lift those secondary taxes, if it creates 2,000, 3,000 or 4,000 jobs initially, and starts creating more exports, more belief in business and confidence in Northern Ireland, that surely has to be a good thing. Right? It is not all about the initial cost. It is a long-term, 10-, 15- or 20-year strategy that we are talking about. It is not just the simple case that this year it is going to cost £300 million and next year it might cost slightly less. It is about the long term. It is about my children not having to go abroad to get a job. They may choose to stay here. A lot of your constituents — a lot of everybody’s constituents — do not have the choice. They go through university, come out and cannot find a job, and they have to go. Some will always go. The bright lights of New York, Dublin, London or wherever will attract, but a lot of people leave here and do not come back, because there are no jobs for them.
1289. **Mr Flanagan:** But, from a public policy point of view, I think that it would be irresponsible of us to simply immediately reduce the rate of corporation tax from April 2017 without having explored whether we are able to get the additional benefits that would likely and hopefully accrue through increased income tax and National Insurance contributions, and reduced welfare payments through reduced unemployment benefits. That is the avenue that we need to go down to make this better, in everybody’s interest. As a group of political representatives, we need to be given the space to do that ahead of the election. I am not saying that we will delay it for ever and day, but the Executive parties need the space to negotiate with a new British Government to try to get a deal that suits us all. An awful lot of people look at it and ask why the public purse here should take all the risk and allow the Treasury in England to accrue any potential benefits that may arise. If you want us to go down the road of setting a date and a rate that is the thing that you need to justify to us.

1290. **Mr Donaghy:** There are a couple of points. I accept that the election is 10 days away and that people are focusing on that. I am certainly not saying that I would love it to be delivered right now and, if you could do that, Phil, I would be delighted. I accept that there is an element of pragmatism. What I do not accept is that this can go on for the next three or four years and that we can contemplate our navels, continue to discuss it and make sure that there is no risk. I heard one of our Northern Ireland politicians saying, "You cannot guarantee it." I cannot guarantee that somebody will get out of bed tomorrow morning. There is no such thing as a guarantee in anything and certainly not in business. What you can do is make a calculated business investment. You can say that there is a risk associated with it and that it may not work, but let us look around, look at the comparatives and see where it has been done before and has had a very positive impact on the economy.
1291. I accept what you said about the cost. I believe that the Northern Ireland Executive and DFP etc have an obligation to try to do the best possible deal that they can. There is a hard negotiation to be had with the British Government.
1292. The economic reality is that we get a bigger subvention than the rest of the UK. If you live in England, you might ask why they should allow Northern Ireland to continue to have that. If there is an opportunity, because there is better economic activity in Northern Ireland and more PAYE, why should they not get some of that money back? Is it not fair to the people in England, Wales and Scotland to say that we should not be as big of a drain on the public purse? There is a time and a place for responsible analysis. If we have more economic activity and better prospects, that should not all necessarily come to Northern Ireland, especially given the fact that we get the biggest possible subvention from the Treasury. It would be nice to have it, but, in fairness and in the proper analysis of where our money comes from, we have to look at the bigger picture and not just focus on what is solely in it for us.
1293. **Mr Flanagan:** I want to go down that road with you, but we do not have time to do that. I want to explore the proposed referendum on EU membership. Through your deliberations with politicians in England, some of whom are very supportive of leaving Europe, have you had any indications that, if they dragged us out of Europe, they would allow the Executive to keep the money because they would no longer be subject to the Azores ruling?
1294. **Mr Donaghy:** That is a really good question.
1295. **Mr Flanagan:** I take it that that is a no then.
1296. **Mr Donaghy:** I have not considered it, and it certainly has not been discussed. Grow NI does not have any specific position on Europe. However, having spoken to virtually all the business organisations, we would be very pro staying in Europe. It would be the right thing for Northern Ireland to remain in Europe. There needs to be a renegotiation. Europe has lost its way a little, and most of the European members agree that there is a need for reform and a review of what is currently happening, but I think that absolutely every member of Grow NI is supportive of staying in Europe. Your question is a really good one and I have not considered it before.
1297. **Mr Flanagan:** It has never come up? No?
1298. **Mr Donaghy:** No.
1299. **Mr McKinney:** I want to make a couple of points. The reason that we have a bigger subvention is that we have a bigger need. Northern Ireland is unsustainable going forward on that basis, and unless we have some major and different injection like corporation tax, that will not change. I do not think that we can take an à la carte approach to the subvention and say that we do not like paying for defence, foreign aid or

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foreign affairs, but that we will take the £10.5 billion. The only way that it will change is if we transform our economy, get up on our own two feet and start to pay our own way. We can then talk about how we can tax that more beneficially to ensure a more prosperous future.

1300. **The Chairperson (Mr McGlone):** I hope that we arrive at that point of prosperity.
1301. **Mr McKinney:** We have to make a start. We have to recognise — *[Inaudible.]*
1302. **Mr Dunne:** Thank you for your positive contribution to the debate and our inquiry and your support of the devolution of corporation tax.
1303. **The Chairperson (Mr McGlone):** OK. Carl and Eamonn, thank you very much for your submission to us and for that very useful exchange on policy. It was maybe a wee bit wider than that, but thank you for your time and responses.
1304. **Mr Donaghy:** Thank you. I wish you well in your deliberations. I hope that your inquiry will come up with the necessary actions. I emphasise again that it is not that everything does not matter; everything matters, but it would be helpful to prioritise and pick three or four things that we can win on quickly. We need positives; we need as much positivity about our place as possible.
1305. **Mr Dunne:** Hear, hear.
1306. **The Chairperson (Mr McGlone):** I could not disagree. Thank you.



## 28 April 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Mr Paul Frew  
 Mr William Humphrey  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

### Witnesses:

Mr John Mills	<i>Department of Enterprise, Trade and Investment</i>
Ms Jo Aston	<i>Northern Ireland Authority for Utility Regulation</i>
Ms Tanya Hedley	

1307. **The Chairperson (Mr McGlone):** I invite Ms Aston to continue with her opening remarks in public session.
1308. **Ms Jo Aston (Northern Ireland Authority for Utility Regulation):** I will run through the presentation and invite Mr Mills to make any comments at the end. We have worked very closely with DETI and the System Operator to address security of supply, which, we acknowledge, the Committee itself identified as critical in its first review of electricity policy. We are very pleased to brief you today on the issues and how we worked through them to get to where we are today on security of supply and the ongoing issues.
1309. The second slide provides some context on where the responsibilities lie. It shows DETI, the Utility Regulator and the System Operator for Northern Ireland. DETI and the Utility Regulator have a duty to address any security of supply issues, and we therefore worked very closely together on this matter. SONI is really the expert and is responsible for running a safe and reliable system. Part of that is identifying any issues to do with security of supply. How do they fulfil that requirement? By publishing annually a generation capacity statement, which has a 10-year outlook.
1310. In 2013, SONI highlighted the risk to security of supply in Northern Ireland, specifically from 2016, because of the delay in the delivery of the North/South interconnector. Had it been delivered on schedule, we would not be having this conversation today. There were, in addition, other contributing factors, which we will come to, including the Moyle interconnector. In 2016, we get the large combustion plant, which will require the Kilroot power station to go out of commission from that year. The Moyle interconnector suffered a number of faults and is therefore running at half capacity. All of those, combined with the delay in the North/South interconnector, led to the security of supply issue.
1311. Working with the Department and SONI, we tried to identify the cause, the risks and the possible remedies. We then needed to take action, and action to solve such an issue takes time. We published three papers, the first in June 2013. I think that SONI was briefing the Committee at that stage, prompting the inclusion of that issue in your first review. We published a follow-up paper in December that identified the risks, how likely they were and their impact, particularly on the economy, as well as on consumers from possible blackout and inconvenience, before identifying potential solutions.
1312. The next slide shows the three large generating units, on which we are dependent in Northern Ireland. When we consider security of supply, we must do so in the context of the Northern Ireland system. We have three large generating units, which provide the thermal backup to wind. Whilst we have a lot more wind coming on system, we cannot rely on wind to be there when we need it. We therefore still require the thermal

- plants to be available to draw on. They, in turn, must close down for safety and for planned maintenance. They are also subject to faults; unplanned failures can occur.
1313. Indeed, in 2012 a combination of planned maintenance and plant failures resulted in a risk to the supply. At that time, we were fortunate because wind turned up and saved the day; but we absolutely cannot rely on that. Very often this happens during a period of high pressure, on the coldest winter's day, or on a still day when there is no wind. We therefore need these plants to be available.
1314. It is important, as well, to say that we are not stuck here. We continue to look at our system, at aggregator units and at demand-side units. In fact, we hope to issue licences very shortly for demand-side units. We are exploring an energy storage pilot and are working to make sure that we get the best value from wind on the system. So, a lot is happening to make our system in Northern Ireland better and more flexible. That is our position on those three large generating units.
1315. I turn over to the graph. The red line shows the very healthy surplus in supply for the Republic of Ireland (ROI) and the blue line the surplus for Northern Ireland. If you look at that blue line a little bit more closely, you can see that, up until 2016, we have a very healthy 600 megawatts of surplus. Come 2016, when the Ballylumford units come out, we are down to 200. I refer you to the previous slide with the three large generating units: if any one of those goes out, 200 megawatts is not sufficient to address that problem. That is the risk that we are talking about addressing here.
1316. The North/South interconnector is fundamental for the long term; not having the additional 400 megawatts will cost consumers in the order of £15 million per annum by 2020. It is causing a constraint on the system, which means that we are not getting the same value and that we do not have access to that surplus of supply in ROI. It will also support renewable generation on to the system and allow us to avail ourselves of all the renewables that will go on to the system for ROI, driving down prices. It is also important for the competitiveness of the current single electricity market (SEM) and of our future I-SEM.
1317. In the short term, given the risk to the economy, to investors' confidence and the risk of blackout for consumers, we thought that it was very important that we took measures. So SONI got the local reserve services contract, and that is now in place. It has not solved the problem, but it has bought us time to 2018.
1318. The Moyle interconnector has been very positive for consumers. It has delivered a lot of value in its life, but, since 2010, it has suffered from four faults. Each fault has been repaired, but it has failed again in other places. It has gone to the next point of weakness and, therefore, in the papers that we published, we identified the fact that there could be an interim repair, that that could work out and that it could take the interconnector from 250 to 500 and address our problem, but we decided that that still did not mitigate the risk sufficiently. At that time, it was identified that the permanent repair would not be in place by 2017-18. The good news is that it looks as if it will be delivered earlier, possibly by the end of 2016, but "possibly" is an important word. It is going into its highest risk phase of construction, and it still needs to get consents cleared through the environment in Scotland and Northern Ireland. So, its delivery is not without risks.
1319. We have the contract in place now. Anyone who knows contracts knows that if you are signed up to one, it can be very costly to do anything about it if you want to stop it; however, I am still very much on the page of, "Why would we?". There is still a very big risk here. All we have done is bought time. We are not out of the woods at all in regard to the mutual energy repair to the Moyle.

1320. Turning to the next page and addressing the risk and honing in on what we have done, which is putting a local reserve contract into place, we mentioned SONI having published its generation adequacy capacity statement. We got it to go back and rigorously examine the issue and the quantum that we would need to procure. We asked it to examine the role of demand-side units and aggregated units to see if that could address the issue, but the scale of the issue and the 200 megawatt gap is such that it could not plug the hole. Therefore, we felt it prudent and important to get the contract, which SONI has done.
1321. Taking in the wider picture, the Northern Ireland Chamber of Commerce has identified that security of supply is absolutely the number one concern for businesses in Northern Ireland. That reinforces the need to rebuild confidence.
1322. We have also identified in the slide the cost of the contract. The additional capacity is estimated to cost about 0.1 pence per kilowatt hour, which translates to about £5.00 per year in the average domestic bill. Nobody wants to have to pay more for their electricity, but this is the best value; it was procured through an open, competitive process. It is a good solution that will alleviate our concern for the next three years.
1323. I will move on to the last slide on the future risks. We have to focus here. We have addressed and plugged the gap for the short term with a contract that we believe is good value for consumers. In the industry, there is a metric that is used for value of lost load. Looking at the value of lost load what that computes through is to say that consumers would be willing to bear a cost of £8 million to £11 million, which is what we are talking about here, to avoid a one-hour outage per year. That is the metric used in the industry, so we believe that it does produce a value for consumers.
1324. The North/South interconnector is really where we have to go. We have to try to make sure that it is delivered as soon as possible for security of supply; to drive down prices for consumers in the current SEM and in the I-SEM; to deliver the EU demand for interconnection, which is important for our new market; and to ensure that Northern Ireland can benefit from the wind generation that we, and ROI, are putting on the system to reduce the wholesale costs of energy, which contribute between 60% and 70% of the bill.
1325. Mr Chair and Committee, that completes my presentation. I am happy to take questions. I think that John may wish to make a few comments.
1326. **Mr John Mills (Department of Enterprise, Trade and Investment):** I will be very brief as I have nothing much to add. DETI remains supportive of the work undertaken by SONI to have AES provide the additional capacity. The Committee has been supportive of the measures in the past in its review of electricity part 1 and subsequently in debate in the Assembly in December 2013. DETI and the Utility Regulator, as Jo has already said, have attempted to keep the Committee and other stakeholders informed of actions, most recently in the update report of 22 December 2014. That is all that I have to add.
1327. **The Chairperson (Mr McGlone):** We will have more to ask, needless to say. Thank you for that.
1328. One wee thing now, I am not a brilliant mathematician or anything like that. However, when I add up your figures for Ballylumford, Coolkeeragh and Kilroot in the slide for the supply concern for 2016 and total demand, total demand, total demand, it shows that they are meeting 99.7% of total demand. Where do wind and renewables fit into that? We are told that they provide up to 20% at the minute.
1329. **Ms Aston:** Yes, they do, but the issue with wind is that it will not always be there, so you have to maintain a level of thermal capacity as a backup; therefore, when the wind is not blowing, you have a

- backup on the system and you can call the thermals in.
1330. **The Chairperson (Mr McGlone):** I appreciate that. You are saying that they are at capacity at the minute, and that the other 20% is added value.
1331. **Ms Aston:** It is added value. You have this that provides all the capacity. We are encouraging wind on to the system, as, when it comes on to the system, it drives prices down, because wind is cheaper than the other generation. It is in the single electricity market, so it is an all-island market and, therefore, it pushes down the system marginal price; if wind comes on, it is cheaper and, therefore, you do not have to go to the more expensive plant to discharge generation on to the system.
1332. **The Chairperson (Mr McGlone):** I am just looking at the overall costs. If your aim is 40% from renewables and your project with AES is going ahead for the next five years, if you have 40% fairly soon, or if 40% turns out to be the figure, you are pretty much sitting with a whole lot of added value at quite considerable cost.
1333. **Ms Aston:** I am not quite clear of the point. The target at the moment —
1334. **The Chairperson (Mr McGlone):** The point is that if you need 100% and you have the potential of 140%, what is the cost of that extra 40%?
1335. **Ms Aston:** We want to get wind on to the system. I guess —
1336. **The Chairperson (Mr McGlone):** I am talking about the actual costs. It is just a simple question, and I do not know whether there is a simple answer to it. You will probably say that it is not that simple, because the wind does not blow all the time, but we know that. Is the renewable target of 40% too high, is it too much of a cushion, or is it not enough of a cushion? What is the Utility Regulator's strategic view? I am asking the Utility Regulator first.
1337. **Ms Aston:** The Utility Regulator is not responsible for policy and, where there is policy we facilitate its implementation. Wind on the system does have value — it drives down the system marginal cost. DETI recently published a report on the optimum target for renewables in Northern Ireland, and that is where I was going to defer to the Department, because where the balance rests comes down to economics. DETI recently published its paper indicating that a target of 25% provides optimum value and benefit for consumers.
1338. **The Chairperson (Mr McGlone):** The Utility Regulator does not have a view on that, as an organisation that looks at costings and views on costs to consumers.
1339. **Ms Aston:** We contributed to the Department's research into the cost benefit analysis of the different percentage targets. Through the review and consideration, the Utility Regulator will consider whether we need to look at the economics ourselves, because our decisions on supporting investment into the system are very much based on economics, or what provides value to the —
1340. **The Chairperson (Mr McGlone):** What did your contribution to the review say? If you do not have it with you, you can supply it to us.
1341. **Ms Aston:** We liaised with DETI's consultants throughout and provided them with necessary information. The paper has just been published, and the Utility Regulator will consider the submission. The closing date for responses has not passed.
1342. **The Chairperson (Mr McGlone):** I am not asking for the consultation. You said, if I picked you up correctly, that you made your views known to the Department.
1343. **Ms Aston:** We contributed to the research and provided information to inform the discussion and analysis.
1344. **The Chairperson (Mr McGlone):** Did that research draw conclusions? Can you share it with us?



1345. **Ms Aston:** We provided data and information to inform the discussions, as did many other stakeholders through the workshops that DETI held.
1346. **The Chairperson (Mr McGlone):** I appreciate that. All I am asking is this: can we have sight of it?
1347. **Ms Aston:** Yes, I am very happy to provide it.
1348. **The Chairperson (Mr McGlone):** That is grand. I move over to the Department on that policy question. I ask you for your view on the same question. Has the Department formed a view on the figure for renewables, Mr Mills? Is 40% too high? Does it need to be reduced, is it not enough, or where are we with it?
1349. **Mr Mills:** As Jo said, we have undertaken research to analyse the costs and benefits of the 40% target. The full document has not been published; Jo is talking about the summary that we published a couple of weeks ago. That was a five-page summary of a 50- or 60-page document. It is out for public consultation along with the strategic issues raised by electricity market reform pursuant to the closure of the current incentivisation of renewables mechanism, the Northern Ireland renewables obligation, in 2017. The summary said that there could be economic benefit to Northern Ireland in up to 40% renewables. However, as Jo correctly said, the most benefit is around 25%.
1350. **The Chairperson (Mr McGlone):** Sorry, I did not quite pick you up there. What did you say about 25%?
1351. **Mr Mills:** The highest value comes in at about 25%; the biggest benefit is at 25%. After that, it slightly tails down, but there is still a positive economic case for up to 40%. However, there is a complication when you add in the effects of electricity market reform and the move from the renewables obligation to contracts for difference. That is a UK-wide scheme, which, to answer very briefly, will not cater for local targets. There is thus no guarantee that development arising from the future mechanism for incentivising renewables that is on the table will take place in Northern Ireland. There is no way of guaranteeing that development will take place in Northern Ireland, and the question of whether there can be a target at all becomes moot. That is out for consultation at the moment; I believe that it closes on 13 May. It will probably be sent to the Committee.
1352. **The Chairperson (Mr McGlone):** I want to get back to the 25%, because I am unclear on it myself. I may be just having a slow morning. How have you come to the conclusion that it is perceived to be of the optimum benefit?
1353. **Mr Mills:** The researchers — Ricardo, that we contracted with — have done a lot of research and have designed scenarios, taking into account the information provided by stakeholders. Put very crudely, those scenarios take an optimistic, a medium, and a low assessment of various factors, such as the deployment of renewables, the increase in demand and so on. They have taken all those factors and assessed whether there would be an economic benefit in going for, say, 20%, 25%, 30%, 35% or 40%. What they find is that the biggest benefit against cost occurs around 25%.
1354. **The Chairperson (Mr McGlone):** OK; that is grand. Thanks for that. To move on to the inquiry, the Programme for Government made the economy the Executive's top priority in 2011. Again, it is a question for you, Mr Mills. What contribution has energy division made to that commitment in ensuring that the economy is top of its priorities during the period of the Programme for Government?
1355. **Mr Mills:** What contribution have we made to the economy?
1356. **The Chairperson (Mr McGlone):** Well, no, the contribution by energy division in prioritising the economy. It is essentially what this inquiry is about.
1357. **Mr Mills:** The approach to energy policy is based on balancing the trilemma: costs, security of supply and the

environment. That balance is reflected in the strategic energy framework, which is currently under its mid-term review. That is from 2010-2020, and 2015 is its mid-term review point. It has 40-odd commitments, and we report regularly to the Committee on taking supporting measures to ensure security of supply, which is essential for the economy, and on decarbonising, which is all the renewable side.

1358. If you compare 2010 to 2015 you can see that there is now a renewables industry employing a large number of people and getting investment of about £150 million to pay for that. On the cost side, the aim is to do it at least cost to the consumer. On that point, there is growth in competition, for example, compared to 2010. There is more switching than in 2010. As for costs, happily, we have seen a period of stability, followed recently by falls in costs of about 8% or 9% in regulated tariffs for the vast majority of users. Happily, we have seen a fall in world gas and oil prices that will have resulted in savings for people using transport and home heating.

1359. **The Chairperson (Mr McGlone):** Those are, if you like, external factors that can go up and down, but I am contextualising it for you. This inquiry is about the factors that are required to gel together to ensure that, basically, if a reduction in corporation tax comes, it will work. A couple of things have come up during our inquiry. One is cost, which you touched on; I know that other members will deal with that later. However, a theme that has come up consistently is the adequacy or otherwise — in fact, the inadequacy — of the infrastructure and the grid. You mentioned renewables. That is but one aspect, but it is kind of outwith what we are talking about. It is the grid that will be required for economic development and growth. Some parts of the North are already disadvantaged as a result of how poor the grid is. If we are to develop enterprise zones and businesses and take advantage of potentially reduced corporation tax, some parts of the North

will be left seriously disadvantaged because of where we are at the moment.

1360. We are trying to establish the way that the Department has looked at that situation, because it is an issue that has cropped up time and time again in the evidence that we have heard. We are also trying to establish what the Department feels needs to be done about it, particularly if the priority is to have an economy within the terms of the Programme for Government, especially in a reduced taxation climate. We are trying to get to that and to hear how your division has been working with others on it.

1361. **Mr Mills:** That is a wide-ranging question for a security of supply debate. I guess I would have to start by saying that we can disassociate some of these things. It is all about the trilemma and balancing that. You say, “Well, let’s leave renewables out of the picture”. That is fair enough, but where the grid is concerned, I do not think it is appreciated just how very successful the renewables industry and NIE have been. Despite what everybody says about the policy on renewables, the unofficial figures from March 2014 to March 2015 suggest that we have hit the 20% target from nothing a decade and a half ago. If we take just solar, the number of installations have increased 800% over the last couple of years. That puts pressure on the grid across the board, because it has to adapt to it. So, we have seen this major change for the environment, which has a knock-on effect.

1362. On the linkage question, we can look at infrastructure. In general policy terms, however, if you want to invest in the grid, you have to pay for it, so that will have an impact on costs. If somebody wants to pay for a connection to an enterprise zone, that is good. I guess we would cite the expansion of the gas network to the west as a major contributor to the expansion of the energy infrastructure. However, you have to be careful. Maybe this is more something that the regulator is very close to, but it is like

- putting motorways to the most remote parts. Is that really a good investment? For example, you cannot have 275 kV lines all over Northern Ireland, and, indeed, people would not like the pylons if you did.
1363. **The Chairperson (Mr McGlone):** Many of us represent some of those areas where very successful businesses want to go for expansion. You heard of Dale Farm, which cannot have a £40 million expansion because of the inadequacy of the grid. It would argue that it has been successful in spite of what has been thrown at it.
1364. Other members are going to pursue a number of issues with you.
1365. **Mr Dunne:** Thanks very much. We appreciate you having to stand in today for Jenny, who, we understand, is unable to be with us. So, we appreciate you coming along and doing what you can.
1366. Picking up on what Patsy said, we have had evidence sessions with various organisations concerned about how NIE carries out its business. Are you satisfied that the current allocation of funding to NIE is adequate for it to get on with the business of upgrading the grid and helping businesses, especially small businesses, to get connections?
1367. **Ms Aston:** I will give an initial answer and maybe defer it to Tanya, who was very heavily involved in the price control process. We go through a price control process with NIE as part of the regulatory process. We look to make sure that any funding that we allow a company is justified, will be executed and provides value for consumers. We did that in our determination on NIE. NIE was discontented with it, and it was referred to the Competition Commission. The Competition Commission supported our funding and thought that we were perhaps generous in some areas. NIE has been funded to £400 million for capital investment, which is a lot of money. In its current run rate, it is underspending.
1368. **Mr Dunne:** It is underspending?
1369. **Ms Aston:** It is underspending on its capital at the moment. Therefore, when thinking about funding adequacy for NIE, it is important that the price control and the economics work for the consumer. That is where we are at.
1370. I will hand over to Tanya to make a few comments that will give more of the detail on how it is moving forward with facilitating the new rules and regulations.
1371. **Ms Tanya Hedley (Northern Ireland Authority for Utility Regulation):** This goes back to the key point about how the grid is paid for. You are developing a grid to ensure that it is adequate both for now and the future. That has to be paid for, and it can be paid for by the person connecting to the grid or by consumers who are using the electricity. In the past, the Committee has also been concerned about the costs of electricity in Northern Ireland. It is very important that, when we look at the need that NIE has identified for grid development and how much it costs, that is justified. For the current price control, the Utility Regulator assessed what NIE was planning to do, identified what it believed was necessary and put forward its position for RP5. NIE did not accept that. It went to the Competition Commission, which also assessed that information about what NIE needed to do. The figures are not exactly the same, but they are not too dissimilar. It is clear that NIE has a clear need to increase investment from the past price control, RP4, and additional moneys were allowed for the current price control for NIE to invest in the network.
1372. I am aware that NIE has been in front of the Committee and has indicated that it intends to deliver all the outputs that were identified as part of its RP5 submission to the Competition Commission and that the Competition Commission believed are needed. That has been assessed twice, and our position is that NIE has funding to develop the identified need. New need may appear, and it is entirely within NIE's powers, if there is new need that was not covered, for it to come back to us

- and for us to provide additional moneys if that can be justified. Our duties to protect consumers are not just for cost today but for the longer term. In response to your question, I believe that, based on the information that I have, it has adequate funding, but that does not mean that the world will not change and that additional funding should not be made available if additional need appears.
1373. **Mr Dunne:** Since our last meeting with the Utility Regulator, which was some time ago, a number of us expressed our concerns, quite strongly, about the lack of action that we felt there was from NIE. That came through from various groups and organisations that have been before us, who told us about the frustrations that they have felt about connections. What has the Utility Regulator done to use its influence to try to move things forward and to encourage and help customers to get connected on to the grid for renewables? What has the Utility Regulator done to move that process forward?
1374. **Ms Hedley:** We have been working very closely with DETI and NIE on progress on this connections issue, and the Minister called a summit, which we also attended, to discuss the issue. We have been making good progress, and NIE is now indicating that it will make a written proposal to us this week. We are hoping to be in a position to provide positive information to the Minister later in May.
1375. It is always the case that some developments will be uneconomic, and NIE has a duty to develop the network only in an economic manner. So, although this may be positive news for some, there is a likelihood that a significant number of people who are currently seeking connection will prove to be uneconomic and cannot be accommodated. Hopefully, this step forward will provide some good news for some generators out there who are seeking to connect.
1376. **Mr Dunne:** OK. We will be monitoring progress.
1377. **Mr Humphrey:** Thank you very much for your presentation. We have heard much in recent times about the devolution of corporation tax to the Northern Ireland Government. Looking forward to that, if it happens in the near future, will the Utility Regulator, in the next price control period, look at the potential for growth in the economy that might flow from the devolution of corporation tax and take that into consideration when setting prices?
1378. **Ms Aston:** This is all projection and scenarios, and I think that that is really important. That sort of strategic approach of looking at what it will bring, what the possibilities are and what might come in are terribly important to feed into a price control. They are also terribly important to feed in to a strategic energy framework document on the policy side and to look at what might happen. We need the mechanism whereby we can react swiftly, should that happen. We also need to be cautious not to create a lot of stranded assets and to fund things that may or may not happen. So, it is very much a judgement call.
1379. Tanya referred to the fact that, should NIE or somebody else identify an additional need that has not been covered in a price control, there is always the opportunity to come back to speak with the regulator. It is not something that we would want to encourage on a very small scale, but where corporation tax is concerned, we follow policy and we very much want to encourage the economy. Where it makes sense for consumers, at the end of the day, we will facilitate that, but to sound a note of caution, we need to be careful about stranded assets because if they do not work out, consumers must continue to pay for them in the long run without getting the value.
1380. **Mr Humphrey:** At the start of your answer, you said that this is all projection and scenarios. You will appreciate that those are exactly the judgements and scenarios that the politicians have to look at in the context of corporation tax being devolved,

- the boost to the economy that it will provide, the opportunity costs that it will have and the effect that it will have on the Northern Ireland economy. Is your organisation doing the same thing?
1381. **Ms Aston:** Absolutely. We are talking about energy today. Energy costs and prices and security of supply are fundamental. We talk about the trilemma of cost and the single electricity market that provides 70% of the cost. You will be aware that we are redesigning that to create a much more competitive market. I think that the North/South interconnector is fundamental for infrastructure and in helping it. All those trilemmas are fundamental for driving down costs, which consumers are paying more for at the moment, for facilitating better competition into the single electricity market and for facilitating renewables so that we maximise the benefit that we get when from them we remove the constraint in the system and so that we can avail ourselves in the North of the 40% target that will remain in ROI for renewables. That will prevent us having to possibly get more Northern Ireland-specific energy that we will all pay a high price for. We very much want to facilitate and encourage. We look at the efficiency of all our companies and at their long-term strategic planning, and we are very focused on them being good for today's and tomorrow's consumers, which helps the economy.
1382. **Mr Humphrey:** In short, do you believe that the introduction of corporation tax will help Northern Ireland to get to the point that you are talking about and will deliver the best deal for consumers?
1383. **Ms Aston:** I could not possibly speak to that strategic question on behalf of the Utility Regulator. We are not a policy body; we facilitate policy. We are very much for the economy and for value for consumers today and tomorrow, and we will facilitate it —
1384. **Mr Humphrey:** With respect, it is on the basis of the economy that I ask the question; it is not political.
1385. **Ms Aston:** No, absolutely, but whether we introduce corporation tax is still a policy question. If corporation tax is introduced in Northern Ireland, hopefully it will bring a lot of investment in. That will be very good and will ripple back to us by making sure that we facilitate that, as well as the development and very much the infrastructure, which is fundamental in getting interested parties in.
1386. **The Chairperson (Mr McGlone):** Just picking up on that, has the Utility Regulator not considered what the situation might be with the uptake of business, new business and FDI? I would be surprised if you have not. Have the Department or, indeed, Invest NI approached you for your opinion on what the scenarios and needs might be and how we might or should respond to them?
1387. **Ms Aston:** I know that Jenny is very engaged with the various Departments and is discussing all those very significant and important issues with Invest NI and the Department. She also regularly meets people in industry and the CBI. So, yes, absolutely.
1388. **The Chairperson (Mr McGlone):** Specifically on the question of a reduction in corporation tax, has there been formal consultation and liaison and an official exchange of views between the Utility Regulator's office and key stakeholders and the Department and Invest NI?
1389. **Ms Aston:** There have been discussions, Chair. If you want more detail on them, I suggest that Jenny speaks to you about them.
1390. **The Chairperson (Mr McGlone):** All right; or you could provide us with a written briefing. That would be for the purposes of Hansard.
1391. **Ms Aston:** OK.
1392. **Mr Flanagan:** Thanks, Patsy, and thanks for the presentation. What will be the total cost of the upgrade to meet the security of supply problem that we hear so much about? The Minister has

- told us that it will mean a fiver a year on domestic customers' bills, and you are telling us that it will be a tenth of a penny per kW hour. What is the total cost?
1393. **Ms Aston:** One computes to the other.
1394. **Mr Flanagan:** What is the total cost?
1395. **Ms Aston:** I think that £8.9 million per annum is the expected additional cost from that contract.
1396. **Mr Flanagan:** For three years?
1397. **Ms Aston:** Yes.
1398. **Mr Flanagan:** With the option of a further two years?
1399. **Ms Aston:** With the option of a further two years, yes.
1400. **Mr Flanagan:** Every time that we ask about the supply issue, we are given a different answer, so it is useful that two of the three parties are on the front row and another is right behind you. When we ask the regulator, it says that DETI asked for it on the advice of SONI; when we ask DETI, it says that it was the regulator and SONI; and SONI says that it was asked to tender for it on behalf of DETI and the regulator. Who is ultimately responsible for the additional cost of around £27 million over three years?
1401. **Ms Aston:** DETI and the Utility Regulator have a joint responsibility for security of supply, so they will have liaised to develop the papers that have been published. The first paper, which is from June 2013, very much described the situation and the contributory factors and identified some of the options for addressing it. With the first paper, we had rather hoped that we could just go to the Department of the Environment and say, "Can you just have a further derogation for Ballylumford, please?" However, that was not to be the case, because it had already had a derogation, and we could not go down that route.
1402. All three parties started to have discussions about how we could move forward, and we looked at the different roles, responsibilities and strengths of each of the different parties. From the Utility Regulator's point of view, SONI, the System Operator, regularly procures ancillary services to make sure that the system is kept safe and reliable. They are the experts and the ones that identified the risk in the first instance. The Utility Regulator regulates SONI, so we engaged in discussions with it in a little bit more detail while very much keeping in touch and liaising with the Department. We started to identify what the options were, what the problem was and what we could do. Our second paper identified some of the options and how we could take them forward. We also engaged with Mutual Energy to see what was happening, what the situation was, what we could do and what the timings were. Basically, we engaged with everybody that we could and felt it necessary to engage with, and we constantly and transparently published papers on where we were.
1403. As part of its provision of ancillary services and its requirement and duty to maintain a safe and secure supply, through public procurement, SONI went out to identify the solutions that were out there. That is how we have ended up with the contract.
1404. **Mr Flanagan:** Did somebody ask SONI to do it, or did it do it off its own bat?
1405. **Ms Aston:** That is SONI's statutory duty, and we would have been in agreement with it about going out and procuring that issue. We would have agreed that it was a problem; we would have agreed that it was a risk; and we would have all agreed that we needed to do something about it. All the parties would have been in that position. We would have asked SONI about that being a route and one of the most viable options for going out in an open process to ask people, "Who can address this problem?" Yes, it absolutely seemed the most pragmatic and sensible way to go forward.
1406. **Mr Flanagan:** So, is the regulator's view that SONI unilaterally took that decision?

1407. **Ms Aston:** All three parties saw that as the right answer to address the risk. In fact, it was possibly the only answer to address the risk within the time frame that we were dealing with.
1408. **Mr Flanagan:** Can you clarify what would have happened if the three of you had not agreed to go down that road? In the event of selecting the “do nothing option”, what would have been the other actions that other parties would have taken? Would AES have just sat back and let its plant be switched off, or would it have invested money to keep it on line itself?
1409. **Ms Aston:** I would love to have a crystal ball. I do not know what the answer to that is.
1410. **Mr Flanagan:** Did you ask it?
1411. **Ms Aston:** Do you ask somebody that question? What answer do you think you might get? It went through an open procurement process —
1412. **Mr Flanagan:** If I am giving them £9 million a year, I would ask them.
1413. **Ms Aston:** Sorry?
1414. **Mr Flanagan:** I would ask them before I gave them £9 million a year.
1415. **Ms Aston:** Our understanding was that the plant would close. That was the directive’s requirement.
1416. **Mr Flanagan:** Did you clarify that with AES? Did you clarify with it whether it would close the plant or invest its own money?
1417. **Ms Aston:** AES informed SONI. As part of its 10-year outlook, SONI must go to all the generators every year to inform their projections for security of supply. In producing the security of supply, it would have gone to AES to find out what its plans were, and AES would have informed SONI that it was planning to close.
1418. **Mr Flanagan:** So you had a guarantee from AES that it was not going to keep its plant operational in the event of —
1419. **Ms Aston:** If I am correct, it has to give sufficient notice to SONI that it is going to close, because you cannot have something of that scale and that you are so dependent on just come off-grid. Therefore, it would have informed SONI that its intention was to close.
1420. **Mr Flanagan:** What is the sufficient notice that it has to give?
1421. **Ms Aston:** I am not sure. Tanya, are you aware of that?
1422. **Ms Hedley:** Every year, as part of the generation adequacy statement, all the generators are asked what their plans are for the next 10 years. Those are not fixed, and they are not necessarily held to them, but that is their commercial decision at that point in time. AES had given SONI notice of when it thought the plant would close, and that was reflected in the annual generation adequacy statement. It can do that any time it likes within that 10-year process, because it is asked what its view is for the next 10 years.
1423. **Mr Flanagan:** Can AES close down its plant overnight, or does it have to give so many years’ notice to SONI that it is going to close?
1424. **Ms Aston:** We can come back and clarify that, but my understanding is that it has to give a period of notice, because you cannot just shut down a plant of that sort of scale with that level of dependency. I can come back to you on that if you wish.
1425. **Mr Flanagan:** The point is that, if there was a requirement on AES to remain operational for x number of years and that was longer than the period for which you are committing to give them money, surely there was a contractual obligation on it to invest the money to keep its plant operational to meet the basic terms of its contract. You can clarify that for me.
1426. Where the state aid risk is concerned, have you any legal assurances that what you are doing is state aid compliant?

1427. **Ms Aston:** At the time, we liaised with a lot of other organisations. We liaised with the UK authorities. The approach that we have taken is very similar to that that the national grid and Ofgem took. We do not understand that there are any issues on state aid.
1428. John, would you like to comment on that?
1429. **Mr Mills:** State aid was not considered to be an issue, given market failure to supply the capacity. The additional capacity is required only in exceptional circumstances. There is a three-year limited time limit, and there was a competitive process. We are aware that other people may not like it, but there was an open process for people to compete.
1430. **Mr Flanagan:** There was an open process, but it is my understanding that there was only one bidder. Is that right?
1431. **Ms Aston:** There were three submissions for pre-qualification, but the only viable one was AES.
1432. **Mr Flanagan:** Was there a third-party view of the value? Did you do any assessment of the proper value, or were you happy to accept what the sole bidder put in?
1433. **Ms Aston:** No. This is a contract between SONI and AES, and it would have sought best value for money. I refer again to value for the consumer — the value of lost load — that is used as a metric in the electricity industry in the UK and elsewhere. The additional £8.9 million to £11 million that, we estimate, this will cost really equates to consumers being willing to pay that not to be without electricity for one hour in the whole year. That metric is used in the industry.
1434. **Mr Flanagan:** If there was only one bidder, and you do not appear to have done any assessment of the bid, how can you be sure that it represents value for money and that there will not be state aid implications as a result?
1435. **Ms Aston:** I think that it provides value for money. I have just spoken about the value of lost load that is used as the metric for value and consumers' willingness to pay for it. On state aid, this is a services contract that SONI necessarily had to go out and procure to make sure that it fulfilled its statutory obligation in ensuring that the system was safe and provided a reliable supply for consumers. Our interest and our whole focus are consumers and the economy.
1436. We have a short-term fix for a critical issue for all of us around the table and, indeed, for Northern Ireland. It is about making sure that we have a secure supply of electricity. We have done this as a short-term patch, but it is still a problem. We need to focus on making sure that the North/South interconnector happens, and we are very focused on that. We get regular updates from the System Operator. Our current timeline indicates that the Northern Ireland consents will be cleared by Q4 2016. Energisation may not happen until Q4 2019, so will we need this contract beyond the three years that we have contracted to? What is the situation if we do not get this up and running by 2021, when Kilroot is in danger of going out? We still have a real problem with security of supply. We need to focus on making sure that we get the right answer now and in the long term. This also feeds through to efficiency and the costs that consumers have to pay. It feeds through to the efficiency of the wholesale market. I really want to focus on trying to get that basic infrastructure of the North/South interconnector up and running.
1437. **Mr Flanagan:** You said that it is a short-term patch, but it is a very costly short-term patch.
1438. My final question is about Mutual Energy. As a mutualised company that is fully funded from electricity bills, it is supposed to be run in the interests of customers. However, in its annual report last year, it revealed that its two executive directors earned £257,000 and £208,000 in 2013-14, which



- was more than a 25% increase on the previous year. How can the Utility Regulator justify those earnings of senior executives in Mutual Energy in any circumstances but particularly given the fact that the interconnector has been out of operation or operating at half capacity for so long?
1439. **Ms Aston:** The remuneration of the executives of Mutual Energy is an issue for the remuneration committee and the approval of its board. Its board is made up of members who have been appointed through public advertisement. That is the governance process. I refer you to the Moyle interconnector, our papers and the public exchange of letters between Mutual Energy and us. The value of the Moyle interconnector, since it has been up and running, has been about £40 million a year. As we look forward to getting this up and running again, SONI, in its published reports, projects that it will cost about £16 million a year. I am not speaking to the rights or wrongs of what seem to be very healthy remuneration packages — I would love one myself — but that is the governance process. From a Utility Regulator point of view, we look at the value of the interconnector for consumers. It delivered a lot of value for some 10 years. We have to pay for repairs now, but they are projected to pay for themselves over three years and deliver another value of £16 million a year. That is what we are focused on in making our decisions, and there is a governance process in the remuneration quantum for the directors, which I —
1440. **Mr Flanagan:** I think that they are excessive and well beyond what the chief executive of your organisation earns in a year. I do not think that there is any justification for them. I see a striking difference between the approach that the regulator has taken towards NIE and how it spends its money and the laissez-faire approach that you are taking with Mutual Energy and how it spends customers' money to pay excessive salaries to executives. Has the regulator no input into how Mutual Energy spends its money and pays its senior executives?
1441. **Ms Aston:** It is a different governance set-up. NIE is a regulated company that is subject to price controls and so on. We set its budget, funding and everything else. Mutual Energy is a mutual company set up in the interests of consumers. It is not regulated. Its costs are passed through to consumers, and we have sight of that annually, but Mutual Energy is run on a different governance structure.
1442. **Mr Flanagan:** So you do not regulate the price that Mutual Energy charges or what it does with the money it gets?
1443. **Ms Aston:** I must go back to what I said earlier. We are aware and have studies and evidence that show that the existence of the Moyle interconnector, which Mutual Energy is focused on —
1444. **Mr Flanagan:** Have you raised the big issue of salaries with Mutual Energy?
1445. **Ms Aston:** It is not our role. We do not ask about NIE salaries either. We do not look at that detail. We set the requirements for investment of the companies that we regulate. We do not look at specific salaries for specific individuals in those companies. That is very much up to the company.
1446. **Mr Flanagan:** I have heard complaints from people in NIE that the regulator stipulates the type of transformer that it uses. That is on a completely different scale to the salary levels that senior executives earn. I kindly suggest that you start to look at what some of these people are earning. There is no justification for these salaries. They are completely excessive and send out the wrong message to the customers who fund such salaries.
1447. **The Chairperson (Mr McGlone):** For clarification: if that is your role and duty, can you do that with a mutual organisation?
1448. **Ms Aston:** It is not our role and duty.
1449. **Mr Flanagan:** It should be.

1450. **Ms Aston:** It is the governance structure. There is a bigger picture. I cannot express an opinion about these salaries; they do seem to be very healthy salaries. As you say, they are much higher than our chief executive's and much higher than we get. However, we are focused on value for consumers. When we look at the Moyle interconnector, which is what that organisation is developed to provide, we find that it has delivered a lot of value to consumers. As for the company's profits and repairs to the interconnector, it will use some of its profits and return them to consumers. What they make is all turned back to consumers. Their salaries are high, but, if they deliver and run the company really well, that value goes back to the consumer. We are focused on giving value back to the consumer.

1451. **Mr Flanagan:** Operating at half capacity or not operating at all is not exactly going that well, but they are still earning massive salaries, which are being taken out of the money that should be returned to consumers. There is a problem that needs to be looked at, and I do not accept that nobody can involve themselves in it.

1452. **The Chairperson (Mr McGlone):** Do you know who can involve themselves in this other than the board?

1453. **Ms Aston:** We did a review of Mutual Energy some time ago and made a series of recommendations, which, I believe, have been carried out. You can tell that I am not speaking to the detail, because I was not involved in the review, but we can come back to you on that. I go back to what I said: it is the governance structure. This is a mutual company that was set up by members appointed by public advertisement to look after the interests of consumers. That board approves the remuneration policies that its committee within the organisation brings forward. The board appointed through advertisement makes those decisions.

1454. **Mr Frew:** Thank you very much for your presentation and your answers so far.

Agendas were mentioned, and there is certainly a very complicated mix of players in the energy world. It seems to be the case that, no matter what takes place and what decisions are made, every decision costs money, which impacts the people whom we represent: our constituents and their employers. If constituents lose their employers and their jobs, they cannot pay their electricity bills. That is my agenda. The decision to purchase 250 MW of additional generation capacity from January next year will cost one large employer in my constituency an additional £65,000 a year to its already unsustainable and burdensome energy bill. That is completely unsustainable and could amount to job losses all around Northern Ireland.

1455. We all know about the problem with security of supply. We have to check that and monitor it, but, when a decision is made, we have to make sure that it is the right decision and is value for money. I am listening to what you say, and what I am trying to get at is whether there is another way, because, the figures in the latest generation capacity statement from SONI for 2015-2024 indicate a significant level of excess generation even when you exclude weather-related technologies, wind and other renewable energies, which cannot be relied on. What criteria were used to determine additional capacity and the amount that is needed?

1456. **Ms Aston:** SONI are the experts. SONI follows standard methodology for the industry when it calculates the adequacy of a system's capacity. When the issue came up, we said to SONI, "Do we really need it? Please go away and consider it, given that 510 MW is coming off the grid with the closure of Ballylumford. What is the issue? Can you quantify it? What is the risk? How much do we need? If 510 MW is coming off, do 510 MW not need to go back on?" SONI looked at scenarios and issues and told us that the figure was 250 MW. We also asked it to look at the demand side to see whether it could do something there.

1457. This is not the space that we want to be in. None of us around the table wants consumers to pay anything more than they have to. We tested all that, sent SONI back and got reports. I am sorry but I am not brave enough, the Utility Regulator is not brave enough, the Department is not brave enough and the Minister is not brave enough to say that we will risk a blackout when experts are telling us that that capacity is needed, even after we pushed SONI to test it again, and the experts came back with the same answer. There is not much more that I can say, but it is regrettable. People have honed in and totally focused on this issue, but not having the North/South interconnector is costing £15 million a year. Meanwhile, we have a problem, and we still need to find a solution. We need to put the same amount of energy, effort and focus into making sure that we get through that door, because consumers are carrying and will continue to carry that cost.
1458. **Mr Frew:** We all agree that the North/South interconnector is vital. We want it and need it now. I am 100% on that page with you. Industries, businesses and employers are waiting for the interconnector, but there are matters that they cannot grasp at present. What they do know is that, from January next year, they will be slapped with a massive additional bill and cost burden.
1459. You rightly say that SONI are the experts. However, its latest statement indicates that the adequacy standard for Northern Ireland is set at 4.9 hours loss of load expectation (LOLE) and further states that the 2016 base is calculated at one hour, which, if my sums are right, equates to about 200 MW. Given that this is a very low loss of load against the stated adequacy standards, what justification was there for requiring the extra 250 MW over and above the 200 MW surplus that is already in place? We can see that clearly in the line diagram in SONI's statement. Expert reports and detailed graphs make it hard to justify the spend.
1460. **Ms Aston:** I take you back to a slide in my presentation, which shows the three big lumpy generators that we depend on and the possibility of one going out. That happened in 2012, when wind saved the day.
1461. **Mr Frew:** Everyone played that down in 2012. Now you are playing it up, because you are trying to justify a decision.
1462. **Ms Aston:** We believe that we have made the right decision. In 2012, we were lucky. It depends what value you place on the economy and on the confidence of the economy. We heard from the Chamber of Commerce that its biggest priority is security of electricity supply for industry. We talk about corporation tax and wanting industry to come to Northern Ireland. Do we want there to be any question at all about security of supply? Prior to putting this solution on the table, everyone was very anxious that there was going to be a problem, and they wanted something to be done about it. The Utility Regulator, the Department and the Minister have made this call, and that is where we are now. We would totally prefer not to have to pay extra. The Authority for Utility Regulation is constantly looking at where we can get better value for consumers. Very shortly, we will publish a consultation on the capacity payment mechanism, which will, hopefully, deliver value for consumers in the current SEM. Our *raison d'être* is to produce cost efficiency and value for consumers. We have made a judgement call on the importance of the issue and the risk.
1463. **Mr Frew:** You talked about your three big suppliers and generators: Ballylumford, Coolkeeragh and Kilroot. We realise the problem with Ballylumford coming off in 2015 or 2016 and the additional capacity of 250 MW. It is not as simple as saying that there are three blocks, because they have different stations. They have varying levels of generation: some have 245 MW, others have 58 MW, 29 MW or 42 MW. I am trying to measure the risk. In the 2012 crisis, how much of Ballylumford was going out at that point?

1464. **Ms Aston:** I am sorry, but I cannot speak to that at all. I do not have that level of detail; I was not in the energy sector at that stage.
1465. **Mr Frew:** I am trying to find out whether it was one part of the station or all the station, because that puts a completely different slant on it.
1466. **Ms Aston:** I come back to the fact that we employ experts to look at this, who use the standard methodology that is deployed throughout the energy and electricity context, in the same way that we have standards of service in the water industry with which we have to comply. This is about risk. It is a judgement call. It comes back to second-guessing the experts. Paul, I hear what you say. You can do that analysis, and we would have tested SONI at the time. That is why we sent SONI back to the drawing board to determine the risks. However, I am not brave enough to say that I can undermine its expertise.
1467. **Mr Frew:** You sometimes have to go with gut instincts and try to measure risk. There are tools to do that. There are generation adequacy criteria, which do not seem to have been applied in this decision-making process. I know that SONI are the experts, but has the Utility Regulator and, for that matter, the Department scrutinised all that to make sure that it was the only thing that we could do and at the lowest cost?
1468. **Ms Aston:** Yes.
1469. **Mr Frew:** We have demand side units (DSUs) and portable generators. Could none of those solutions have been used to facilitate or manage the risk?
1470. **Ms Aston:** SONI was asked that specific question about the demand side. It already takes expected growth into consideration in its annual capacity statement, but, nevertheless, before we went out to tender, we specifically asked it to look at the issues and aggregated generating units (AGUs) and to ask, "What is the potential solution, and can this gap not be plugged?" Its riposte was no — not for the scale of the scenario that we were trying to address. We covered that ground. It is an important point, and we have a duty to facilitate that. I hope that, over the next number of weeks, we will have some licences for the demand side in Northern Ireland. That is important, and we want to be there.
1471. **Mr Frew:** I will put the question this way: how much would the demand side have produced or saved in megawatts?
1472. **Ms Aston:** It goes back to what I said: it is incorporated into the generation adequacy statement, because it has to plan scenarios for 10 years. It has to put in what the growth in the industries will be and what they will contribute. The scenario — it is similar to the 2012 situation — is that one of the plants will go out, so what will we do? Will we be able to solve that problem?
1473. **Mr Frew:** As far as I know, the existing North/South interconnector runs about 200 MW. It is also my understanding that that could be temporarily increased to 400 MW. Remember that all the pressure with peak demand is in the winter. It is not as if it is all year round, but businesses will be slapped with a bill all year round. At certain times during the year, we have a problem with demand, but we may have had a temporary solution with the existing North/South interconnector. Was that explored by you or the Department?
1474. **Ms Aston:** Again, SONI would have tested that in its projections and its operation of the system. I believe that SONI has attended the Committee before and talked about those specific lines. That was not an answer. There are lots of constraints on our small system that we are looking to address and trying to see what we can do. It is a complex system, which is why SONI is there, constantly looking at how it can deploy things. That was not a solution.
1475. **Mr Frew:** At all.
1476. **Ms Aston:** No.
1477. **Mr Frew:** This is a long-term problem to 2024 when we will lose parts of

- Kilroot. What long-term thinking is being deployed? This is a short-term solution for three to five years. It is being paid for, and we have additional capacity, arguably at a time when we do not need it. In fact, we could need it in three years, five years or in 2024. We are hoping for the North/South interconnector. The Moyle interconnector will be go online sooner rather than later. Would it not have been in the best interests of all of us, the consumers and my constituents to have had a contract for a shorter time rather than being held up, as you rightly said, and stuck in a three-year contract?
1478. **Ms Aston:** There are two points to your question: the longer-term answer and whether it would have been better to have had a shorter-term contract. I do not think so. Mutual Energy will deliver earlier than expected, which is good. However, we do not know whether it will have problems going through a construction phase in a difficult environment. We cannot be 100% sure until we have got it, so a three-year period seems about right. Based on our information at that time, a three-year period will hopefully get us beyond the North/South interconnector delivery, so I think that it was the right period. We built in an extra two years because of the risk of the North/South interconnector, and I am pleased that we did that. If we want to avail ourselves of that, we will need to let AES know quite early, because it will have to do further work to extend the plant to be able to survive an additional period. So AES has plugged the system to be able to exist for another period and to comply.
1479. Over the long term, we are constantly looking for updates on progress of the North/South interconnector from the System Operator and from EirGrid because the line in Northern Ireland is no good without the line in the South. So let us be very positive about that. However, I ask the Committee to do what it can to profile the importance of getting that major infrastructure up and running for security of supply and for efficiency in driving down costs.
1480. In the redevelopment of I-SEM, we want to redesign the capacity remuneration mechanism. In looking at that, it will be different from our current system. We will identify the volume we need and where we need it and will then procure that through an auction system. If we have a risk of security of supply in Northern Ireland that is specific, particularly without the North/South interconnector, that will be expensive, because this is supply and demand. That high cost would encourage investment in, but you will pay for it. Again, that comes back to cost. We are looking at how the long term works. I would like to be sitting here very assuredly and telling you that the North/South interconnector will be delivered because it is the right answer.
1481. **Mr Frew:** NIE was here last week, and I quizzed it on paragraph 10.318 of the Competition Commission's report, which states very clearly that the onus and the risk should be on NIE to invest in the 33kV grid. What is your view on that? Has it stepped up to the mark investing in 33kV grids so that some employers in my constituency can generate their own electricity and connect to the grid?
1482. **Ms Aston:** Thankfully, I am not aware of the RP5 to that level of detail, but I will defer to Tanya.
1483. **Ms Hedley:** NIE indicated to you that it is wrapping up its programme. That is not a surprise because, during the RP5 process, it did not have clarity of what investment it would be allowed, and it takes time to procure and put contracts in place. We will monitor that area very closely. We will be looking for detailed reporting to make sure that it is doing the defined outputs and that the identified work is being delivered. We have no reason not to believe that it will do that investment for the next number of years.
1484. As I mentioned, we engaged with NIE and the Department on some connection issues, and we hope to be able to say something positive on the economic duties on NIE. It is up to NIE to invest economically in the network

- and to decide what the best investment is. We scrutinise it, but our duty is to protect consumers. Its duty is to develop the network economically.
1485. **Mr Agnew:** Thank you very much for your answers so far. There have been quite a lot of questions, but you can appreciate that we are very interested in this area. It is also a complex area. I will preface my questions by saying that, if I ask anything ignorant, it is because the longer I serve on this Committee, the more confused I am about energy. I will try to ask sensible questions, but I apologise if I veer off.
1486. As part of our inquiry into energy policy, we looked at grid investment, and one of our recommendations was that there should be a strategic approach to grid investment. We were told by the Department that there is a strategic approach, but, as far as I understand it, the strategic approach is demand-led. When we said that there should be a strategic approach, we meant anticipating demand. I know that there are concerns — I am trying to remember the term that you used, Jo — about having assets sitting dormant —
1487. **Ms Aston:** Stranded assets.
1488. **Mr Agnew:** Yes, stranded assets. I know that there is a concern about that, but I will give you a concrete example of where I do not think there has been strategic investment. In 2011, the Crown Estate issued its call to license tidal projects for the north coast. It was fairly predictable that someone was going to take up that offer. In fact, there were numerous bids for that opportunity. However, four or five years on, those projects are trying to get up and running, and they are having problems with the grid. To my mind, those problems could have been anticipated and we could have had strategic investment in the grid to make sure that those problems did not occur. Why, in your view, did that not happen?
1489. **Ms Aston:** I will defer to the network person here.
1490. **Ms Hedley:** OK. The first thing to say is that there is a strategic approach. It is demand led, but there is an assessment of what that demand is going to be in the future. NIE does not wait for the demand to occur: it monitors where the demand is in Northern Ireland every year, as does SONI. One thing that we are developing with NIE as part of its reporting is something called load indices, which show how the capacity on the network is developing. You can see that progress so you can then see where the critical points are appearing. You can also predict where they will be in the future, so there is some strategic thought to it. Hopefully, that gives you some comfort.
1491. Because of the work that went on in the Crown Estate piece, it was very clear where those projects would be developed. It was clear what size they would be and what sorts of investments would be required. The size of those projects and their long-term plans show that they are very significant. These are large levels of investment, so it is a case of trying to understand when the need will materialise, when the network needs to be there and how that will be paid for.
1492. A number of years ago, NIE came to the Utility Regulator with what it called its medium-term plan, which was for investment in the transmission infrastructure in order to facilitate renewable development. Most of that has been approved and is progressing. NIE also came to us with its approach on clustering, which was a way to allow more renewables to connect and to try to ensure that we did not end up with a landscape of multiple overhead lines. However, we are more strategically considering how to develop the network. Again, that is progressing and is facilitating a lot of the larger scale renewables that are connecting. This work is ongoing and consideration is being given, but we also want to ensure that we do not jump too far ahead of those projects as they develop, so that we end up with a stranded asset, as Jo mentioned. There is a balancing act

- in how those projects progress and when the investment takes place. The Utility Regulator and NIE both engage proactively with those developers on their timescales and when they hope to be at the stage of connecting.
1493. **Mr Agnew:** If we are being strategic, why are we not at least a bit ahead of the game? Why do we have a situation where, as I understand it, one of the developers on the north coast that wants to carry out a 10 MW pilot is having connection problems? Why is that not being anticipated? When you do your price control and when you give consent to invest £400 million, what prevents NIE from acting before the developer is ready to connect, rather than having to wait until it sits down with the developer to say, “Right, you are ready to connect; here are all the problems.”?
1494. **Ms Hedley:** I do not want to go into too much detail on the project that you refer to, but we are actively discussing it with the Department and NIE. They are quite a way off from being able to connect because of various bits and pieces that they have to do, but we are actively talking to them to see what can be done. There is also a duty not to discriminate; we cannot decide that one type of renewable energy is better than another and should be treated differently. We need to be very careful that we stay within the legal duties that the Government has put on us in promoting renewables.
1495. **Mr Agnew:** There are very few renewable generators proposing to bring on 100 MW. That is fairly significant when it comes to being strategic and working towards the 40% target.
1496. **Ms Hedley:** Yes. We are aware of the project that you are talking about, and we are actively engaging with the Department and NIE about it, but I again point you to the works that we have done to try to ensure that the grid is ready in areas where we can see real value, and, hopefully, move forward towards meeting targets that the Government has set.
1497. **Mr Agnew:** My concern is that we are almost creating stranded assets or that we will put at risk the development of those projects on the north coast because of the connection problems. I have been contacted and I think that, at this stage, we are back in a position where developers feel that the problems are being resolved. I had some phone conversations that, from their point of view, were pretty urgent. I do not want to say that the project was completely put at risk, but there were genuine fears about the progress. Maybe it is my ignorance, but I still do not fully understand why — Sorry, when was your price determination?
1498. **Ms Hedley:** The Competition Commission put a determination in place about a year ago, but, at that stage, we were already partly through the time frame that the price determination was for.
1499. **Mr Agnew:** So that delay could potentially have impacted on this. I suppose that is what I am trying to get at. Is it because a year was not sufficient to have these things in place? I see a demand-side approach. The developer has not said, “We need to connect”, so NIE has not upgraded the grid. Can NIE not upgrade the grid in anticipation of what the developer will do?
1500. **Ms Hedley:** NIE does that through the clustering system. That is the process that it has put in place for renewables. It monitors what developments are in planning and what developments are coming forward. It does not wait until the developer puts in the application form; it is proactive in looking at the grid’s future needs, but there is also a balancing act in not necessarily jumping too far in advance so that you end up with consumers paying for infrastructure that may never be used.
1501. **Mr Agnew:** In some of the cost-benefit analyses, the price controls, etc, there seems to have been an approach that says that microgeneration, particularly solar cells on houses, is just not worth it. When those calculations are

being made, it seems to me that solar is just seen as a problem in that it does not produce enough to justify the investment in the grid to bring those micro-renewables online. How long term do we look? We always talk about 2020 but there is, I hope, life beyond that, and I hope that there is thinking beyond 2020. If we are talking about decarbonising our electricity supply, surely solar and photovoltaic on domestic housing has to be part of the mix. If we kill off the industry now through failure to invest in the grid, can we bring it back?

1502. **Ms Hedley:** Solar fits into micro, small-scale generation. To put it in context, in Northern Ireland, there are now over 10,000 active renewable generators operating. For solar, the run rate at the minute is over 300 applications a month. In March, I think that there were over 700. There was a huge surge in people applying because of changes to the incentive scheme, and that is putting quite a lot of stress on the organisations that are dealing with those. In one month, you get 300 applications and, the next month, you get 700 applications when you were not necessarily expecting that level of jump. There is a lot of solar out there, and people are using it for their own use as well as for export. We are all aware from various pieces of evidence that we, NIE and other developers have produced that there are pressures on the grid in terms of NIE as a heat map to indicate where the stresses and strains are. I agree with you: it is not a short-term target. We talk about 2020, but the European directives and thoughts are around decarbonising energy by 2050. This is not about “Let’s tick a box”; this is about climate change.
1503. One thing about economic value is that people actually need to use the electricity. Somebody needs to want to use it. There is no point in having a lot of renewable generation if people cannot use it because it makes the network insecure. People want the stability of security of supply and quality in the supply that they get. The other

thing is that, at certain times — we have mentioned this before at the Committee — wind generation is turned off in the SEM and in the wholesale market because the demand is just not there; there is no huge, heavy industry using huge amounts of energy. At certain times, such as a summer night, we do not have a large load because everyone is using air conditioning; our heavier load is during the winter. Our duty is to protect consumers: the people who are using electricity and paying the bills. Yes, we want to promote renewables and ensure that we consider security of supply, but our primary duty is to consider whether the person who uses the electricity wants and needs it. Will they use it? There is a journey, but there is a balance between the costs now, sustainability in the future, and security of supply. That goes back to the trilemma that you are pointing to.

1504. **Mr Agnew:** OK. Thank you very much for the answers. I want to move on to the Department and Contract for Difference. Has the Department’s approach now become, “Ah well, if it happens, it happens; it is out of our hands.”? The Department’s attitude to Contract for Difference seems to be that it cannot do anything about this new scheme. What is the Department doing to ensure that Northern Ireland sees at least its fair share of renewable development as part of the Contract for Difference scheme?
1505. **Mr Mills:** I have absolutely no idea where that accusation comes from. Absolutely the contrary is the case.
1506. **Mr Agnew:** The whole argument that has been made —
1507. **Mr Mills:** Sorry —
1508. **Mr Agnew:** Sorry, I will let you answer. An argument has been made since the review of the strategic energy framework. We have not seen the detail of the report yet, but we have just heard that 25% is now being deemed to be the optimum. However, what seemed to be coming from the Minister was that Contract for Difference is out of our hands; it is a UK-wide pool and if people



- do not want to develop in Northern Ireland, they will not develop in Northern Ireland. That is the interpretation.
1509. **Mr Mills:** Well, I do not know whose interpretation that is, but it could not be further from the truth. The Minister, the permanent secretary and everybody down to the people in energy division who deal with this directly have had massive contact with the Department of Energy and Climate Change (DECC) in London to discuss these things. The Minister has been over personally to see the Secretary of State to highlight some of the specific issues that we have; for instance, around clustering and the need for longer grace periods. We deal constantly with the industry and have had numerous discussions. Tomorrow, I will give a talk on the subject again. The engagement has been very determined. But, at the end of the day, that does not mean that we will be successful.
1510. The DECC approach to electricity or the move to Contract for Difference is that it must be on a UK basis, thus there is no acknowledgement that we need a longer grace period. It is a fundamental principle of electricity market reform with DECC that there cannot be any suggestion that we could guarantee regional development. According to DECC, there is no possibility of looking at costs. As a result, because continuance of the incentivisation of renewables — it goes back to the trilemma — will have a marked effect on costs, the Minister has consulted on the strategic impact of introducing Contract for Difference alongside the DECC consultation on the detail of how it will work in Northern Ireland. Both of those consultations are out and will close in mid-May.
1511. **Mr Agnew:** The tables have now turned to some extent. Under the renewables obligation certificate system, for any development in Northern Ireland the costs were spread across the UK, so, to a large extent, GB consumers paid for development in Northern Ireland. Under Contract for Difference, there is the potential that the vast majority of the development will be in GB, and our consumers will pay for it, with no direct benefit.
1512. **Mr Mills:** That is absolutely correct.
1513. **Mr Agnew:** It is?
1514. **Mr Mills:** That is correct.
1515. **Mr Agnew:** Yes; I thought that I had got it wrong. Were we wrong to go into Contract for Difference and the new system of electricity market reform without negotiating those grace periods that you referred to?
1516. **Mr Mills:** While we tried to negotiate those grace periods, it was a one-sided negotiation.
1517. **Mr Agnew:** I have one final question, Chair. It is on our inquiry; I nearly forgot to raise it.
1518. **The Chairperson (Mr McGlone):** That is why we are here. Try not to forget that one.
1519. **Mr Agnew:** Exactly, Chair. I want to go back to the Utility Regulator and regulation costs. The Federation of Small Businesses and others asked us to look at the policy options to bring down energy costs for business. Regulation costs are an element of the overall electricity picture. What is your assessment of the benefit to consumers of the regulatory cost? Is the cost-benefit analysis working out in consumers' favour?
1520. **Ms Aston:** I would say absolutely, yes, but I would say that. When I was in water regulation, by the time we did a price control we were saving around £50 million a year in operational costs. If you look at the recent RP5 — I do not have the numbers but I am sure that Tanya can provide them — NIE was looking for hundreds of millions more than we determined it could have. That was referred to the Competition Commission and it came back in our favour. We had got our numbers right, not the company.
1521. If I look even to the wholesale energy market, I referred to a consultation going out next week on capacity payment mechanisms. The evidence is there

- that we are doing our job. It is terribly important that we are proportionate in the regulation that we apply. We very much try to honour that. If a company is doing well, let us not scrutinise it to death. Where there are monopoly services, however, benchmarking and regulation are fundamentally important. Looking at our retail side, we retained the price control regulation of the incumbent. That is delivering benefits for consumers. In every sector that we look at, the evidence is there, not just what we speak to, Steven.
1522. **Mr Agnew:** Going beyond your regulatory role, there is the stream that funds the Northern Ireland Centre for Economic Policy etc, and the additional costs added into the price for various programmes. Are you content with those across the board? The focus is often on domestic consumers, but are business consumers getting a good return on those additional costs in the price structure?
1523. **Ms Aston:** John might want to comment on some of those additional costs. They are subsidies that we administer in order to incentivise. In our whole regulatory role, we very much protect the domestic consumer, but we protect all consumers. On the retail side, in comparison of prices we look at the small and medium-sized businesses as well as the large consumers. On the single electricity market and our redesign of the I-SEM, I met the major energy users' group on a couple of occasions, and will continue to meet it. Our focus is not solely on domestic customers.
1524. **Mr McKinney:** It strikes me that there are two scenarios in security of supply. There is the gap, and creeping increasing demand etc. How do we know that you are informing yourself about the potential that would emerge out of lower corporation tax and increasing demand for electricity supply when we do not see that in your presentation?
1525. **Ms Aston:** I spoke to the Chair about that earlier. That policy decision has been made. It takes everybody around the table to inform each other of what value we see coming into the sector and what that means further down.
1526. **Mr McKinney:** Where is that taking place?
1527. **Ms Aston:** Our chief executive is liaising at a high level in relation to that with —
1528. **Mr McKinney:** We, as a Committee, are not seeing that. I do not see that here.
1529. **Ms Aston:** We will take that away. I have agreed to take that away and come back to you on that.
1530. **The Chairperson (Mr McGlone):** Earlier, you agreed that you would supply us with some of that detail.
1531. **Ms Aston:** Jenny will be advancing a lot of that discussion. The strategic energy framework is being reviewed. That will be another important document in looking at scenarios.
1532. **Mr McKinney:** I will ask it in a different way: would the lack of a robust assessment of that turn off potential investors?
1533. **Ms Aston:** The lack of a robust assessment of corporation tax?
1534. **Mr McKinney:** And its potential.
1535. **Ms Aston:** It goes back to our strategic outlook, and it comes back to demand. We consider what are the different scenarios in everything that we do. We take a high, medium and low scenario in demand. It might not be specific to corporation tax. In making our strategic decisions on the scenarios for the generation adequacy, or even in developing our I-SEM and SEM, we will look at scenarios. What will happen to wind? What will be the development of that? What about demand? Will it increase? Will it decrease? We always run with a number of scenarios — high, medium and low — in all those contexts. It might not be directly related to corporation tax, but it is an envelope within which we look at the possibilities on the high side and the low side. We can extract from some of that for you. I

- am very happy to take that consideration away and feed back to you.
1536. **Mr McKinney:** I get that, but you presented a couple of slides. The Chair raised corporation tax earlier, and I respect the assurances that you have given us on further information about discussions, but we are in the reality now when we will be inviting people in with FDI and all the rest. Earlier, in respect of North/South supply, you said that we could be looking at the fourth quarter of 2019, but then you added on two years. There is a real threat to the growth potential that we have; it is a greater threat than what you have presented today. It is not here.
1537. **Ms Aston:** I hear the Committee say, quite loudly, that if investment comes knocking on our door, we absolutely want to be ready to accommodate it in respect of corporation tax and any implications from it. I ask the Committee to let us come back, because we did not come here today with that thinking to present to you, but we are very, very happy to come back with that thinking.
1538. **Mr McKinney:** Do you accept that this presentation falls shy of that?
1539. **Ms Aston:** No. If we think about any major inward investment, it will take time to come in. We will have the network to agree —
1540. **Mr McKinney:** With respect, I appreciate the conversation we have had, but the presentation you have given us is against creeping increasing demand, not radical demand. How do we know that you are thinking in those terms at all?
1541. **Ms Aston:** I come back to scenarios. It is all back to —
1542. **Mr McKinney:** Have you done scenarios?
1543. **Ms Aston:** Yes, scenarios will have been done within the generation adequacy statement.
1544. **Mr McKinney:** Within the ambition of the corporation tax scenario?
1545. **Ms Aston:** No, I am not able to present to you today within the conditions of the corporation tax scenario.
1546. **Mr McKinney:** Is the Department doing that?
1547. **Mr Mills:** No. It has only produced an annual assessment of demand.
1548. **Mr McKinney:** That is the creeping demand.
1549. **Mr Mills:** No, it is all demand. It will be all scenarios. Your point, which I think Jo is answering, is that you want to be assured that more business demand will be included in the ongoing and normal process part of the system. That is what you want assurance on, and that is what Jo said she would give you.
1550. **Mr McKinney:** Yes, but at a strategic high level and at a subregional level, given that, potentially —
1551. **Mr Mills:** All demand will be included in the assessment of what is needed.
1552. **The Chairperson (Mr McGlone):** Sorry. “Will be” or “has been”?
1553. **Ms Aston:** Has been.
1554. **Mr Mills:** There is an ongoing annual process. It is SONI’s job to make sure that there is an adequate system.
1555. **The Chairperson (Mr McGlone):** I hear what Fearghal is saying. This evidence session was about energy issues and updating the inquiry into economic growth and job creation in a reduced tax environment, which is corporation tax. It would be very helpful to establish, certainly from the Utility Regulator and from a departmental point of view, what consultations you have had on the potential that exists within that environment.
1556. Unfortunately, Jenny cannot be with us today, but could we have a written briefing that outlines the potential scenarios that you see? Those scenarios will be best informed by some of the other stakeholders such as Invest NI and those within the Department. That briefing should be on the scenarios

- that you see unfolding and how, strategically, demand in those scenarios will be met. Fearghal has shared his thoughts with us, and I am sure that I am encapsulating the mood when I say that I would be very surprised if those scenarios had not been gone through. We need to have gone through them. If we have not, we are in a slightly more difficult place.
1557. **Mr McKinney:** With respect, Chair, you are making the assumption that they have been gone through.
1558. **The Chairperson (Mr McGlone):** No, I am not making any assumption. I am asking for evidence that, in fact, they have been gone through. I would be very surprised if they had not.
1559. **Ms Aston:** Fearghal, what I would say is that, in all that we do, we are strategic and long term and are not just for today's consumer but tomorrow's. So, when it comes to adequacy of supply, there is a 10-year outlook and, in that, there are high- medium- and low-demand scenarios. You then take your pick. In the same way, we have made the decision and taken the call that putting in a local reserve was necessary; we have taken that call for today. We take the call all the time as to whether there is a high, medium or low demand. As things like a lower rate of corporation tax come in and perhaps support a more high-demand scenario, we will need to make decisions. Perhaps when those decisions are called for, we will need to take it around and back again so that everybody is aware of the cost implications of those decisions in —
1560. **Mr McKinney:** I get what the content of the discussion would be, but I want to ask a very blunt question. Have all the stakeholders sat down against the backdrop of potential demand emerging from a lower rate of corporation tax and worked out what that demand will be and the actions that will need to be taken as a result?
1561. **Ms Aston:** On the targeted question you are asking, I would say that we have not sat down and had discussions on that with a specific corporation tax label, but we have done that in a high positive demand scenario. I have undertaken to come back to the Committee with a submission that will provide a more targeted answer to your question in the context of corporation tax.
1562. **Mr McKinney:** I have one final question, Chair. NIE has made a proposal about power parks. It has spoken about a window of opportunity for those — *[Interruption.]*
1563. **The Chairperson (Mr McGlone):** Is that a vote?
1564. **Mr Frew:** We have three minutes.
1565. **Mr McKinney:** This is unfortunate.
1566. **Ms Aston:** “Unfortunate”, did you say? *[Laughter.]*
1567. **The Chairperson (Mr McGlone):** I think that we will have to — Is that a vote?
1568. **Mr Frew:** Could we have that answer in writing, and we can let the folks go?
1569. **Mr McKinney:** What was that?
1570. **Mr Frew:** Could we have the answer to that question in writing?
1571. **The Chairperson (Mr McGlone):** That is a fair point. Fearghal, could you ask the question again? Have you completed the question?
1572. **Mr McKinney:** We will do that in written form, if that is OK.
1573. **The Chairperson (Mr McGlone):** Have you heard the question, Jo?
1574. **Ms Aston:** No.
1575. **Mr McKinney:** Basically, NIE is talking about the opportunity to have a good conversation about the prospect of power parks. That would, of course, address that subregional aspect that I have talked about. What are your shared or individual views on that concept?
1576. **The Chairperson (Mr McGlone):** If it is OK, Fearghal, we will submit that question in writing as well so that you can pick it up.

1577. **Ms Aston:** Yes, that is absolutely fine.
1578. **The Chairperson (Mr McGlone):** I am sorry about this, but we have to go for a vote. Thank you very much for your time and for sharing your views with us.



# 12 May 2015

**Members present for all or part of the proceedings:**

Mr Patsy McGlone (Chairperson)  
 Mr Steven Agnew  
 Mr Gordon Dunne  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Fearghal McKinney

**Witnesses:**

Mr David Fry                      *Confederation of*  
 Mr David Gavaghan          *British Industry*  
 Mr Nigel Smyth

1579. **The Chairperson (Mr McGlone):** Before us today we have Mr Nigel Smyth, the director of CBI; Mr David Gavaghan, vice-chair; and Mr David Fry, senior policy adviser. It is good to see you all. Thanks very much for coming along to give evidence to the Committee inquiry. It is great to have you here. You know the format: we will have opening statements then a question-and-answer session with members. Are you leading, Nigel?

1580. **Mr Nigel Smyth (Confederation of British Industry):** I will speak for maybe five minutes just to give an overview. Chair and Committee members, we are delighted to be here today. CBI is the UK's leading business organisation, speaking for around 190,000 businesses that together employ about one third of the private-sector workforce. As we said in our submission to the inquiry, we see this as an extremely important piece of work. The business community sees it as vital that the Executive urgently develop a strategy to maximise the impact of lowering corporation tax levels in order to stimulate investment and maximise the levels of job creation and the broader impact on the community. So, we believe that the recommendations from the Committee will be particularly important. However, as we and others who have

appeared before the Committee in recent weeks said, there is strong evidence to suggest that, while lowering the corporation tax rate would be vital to encouraging investment, it is also recognised that other key factors, notably skills, infrastructure provision and innovation planning must also be addressed as part of an integrated package to inform the Northern Ireland economy. We see the reduction in corporation tax as a transformative tool.

1581. In our submission, we therefore sought to prioritise the key actions that are required in the near and medium term to further enhance our competitiveness and attractiveness as a region to do business and to invest in. We split those into strategic and policy challenges. First, with the strategic challenges, setting a date and rate and developing an effective marketing strategy will give Invest Northern Ireland the time and opportunity to market the rate internally and externally, as well as show to the UK Government that the Executive are serious about delivering sustainable public finances. An effective marketing campaign targeting potential investors is essential. Secondly, strong, united political leadership is crucial to show that Northern Ireland is politically stable and, importantly, an economically ambitious place in which to do business. That should include a clear and unambiguous focus on delivering a truly shared future and creating an environment that will attract and retain the talent necessary to inform the Northern Ireland economy. Thirdly, the silo mentality in government needs to end. The now agreed reform of Departments must enable a more strategic, joined-up government if we are to get the policy landscape properly aligned to meet the needs of indigenous and local investors and ensure that we have an integrated economic strategy that embraces all Departments. Finally, we need to raise

the ambitions and aspirations of our society to ensure that we deliver the 35,000 to 40,000 additional jobs over the next 20 years. The need for an internal communications strategy in Northern Ireland is critical. This is about opportunities, and we need to make sure that our young people and local people benefit from those.

1582. We have set out two main priorities for the key policy challenges: education and skills; and infrastructure. On education, the broad priority must be to better align education and training with the needs of the economy. In our written submission, we set out a series of key recommendations around the importance of improved careers advice and guidance, including greater involvement of business. This is all about inspiring our young people and making our young people make better, more informed choices. Secondly, we want to ensure that we prioritise investment in further and higher education. Our higher education sector, in particular, needs sustainable and competitive funding levels. Thirdly, the STEM subjects are an important part of the curriculum, and the STEM strategy must be ambitious. Fourthly, it is about improving the employability of our young people, including getting the basics right in English and maths, having a statutory requirement for work experience and ensuring that the curriculum inspectorate focuses on the attitudes and behaviours that are sought by employers. Finally, we want to build better and deeper business and education links.
1583. The second key priority is around investment in infrastructure, which, we believe, must be an ongoing top priority for the Executive. The next investment strategy should prioritise a series of projects that business sees as critical to improving connectivity in the region. That is very much around the strategic road network, including the York Street interchange, the A6, the A5 and, importantly, on the energy side, the second North/South interconnector. Clearly linked to that is the need to

improve delivery. That is about better procurement and delivery reform. An implementation plan was presented to the Executive subgroup on infrastructure last summer by the Finance Minister and a working group. It is now critical that all parties in the Executive buy into those principles and that we deliver the outcomes as soon as possible. Finally, we want to see the Northern Ireland investment fund deliver on its potential and make its first investments by the summer of 2016.

1584. There are clearly many other policy issues that impact on the broader business environment that will impact on business investment. I will touch on four of those. We need to ensure that the planning system is providing certainty and that planning decisions are taken in a speedy manner. We need to ensure that we have an employment law framework, which supports a flexible labour market and encourages companies, large and small, to employ more people. We believe that continued UK membership of a reformed European Union is in the best interests of our long-term future and maximising global investment in Northern Ireland. Finally, strategic and fundamental public-sector reform is required over the coming years to improve outcomes at a lower cost and to deliver sustainable finances.
1585. Chairman, at that point, I will conclude the opening statement. We very much look forward to responding to your questions.
1586. **The Chairperson (Mr McGlone):** Thanks very much. I am particularly interested in the question of infrastructure. Could you maybe expand a wee bit on your implementation plan? According to what the Committee has heard so far, the infrastructure issue, particularly for economic development at subregional level, is a major theme. It is not about just roads and water but broadens way beyond that into electricity, gas, and basic communications such as broadband and mobile telecoms. Could you give us a flavour of your implementation plan and its key issues? Has the Executive subgroup been in



- communication with you about its roll-out or how it sees that happening?
1587. **Mr Smyth:** You are quite right about the infrastructure priorities. We focused on transport and the strategic road network. Energy, regarding the North/South interconnector, is critical, as are telecoms. We are fairly well-placed in telecoms with broadband and mobile. Even in recent months, we have been doing our own piece of work around that. I was in the western half of the country twice in the last week. I was a bit surprised at the concerns about the lack of high-speed broadband. There is no doubt that the priority is to continue to stay ahead of the curve on this issue, ensuring that we are making the right investment. For some companies, that is almost taken for granted. It is a limited cost compared with the broader infrastructure.
1588. In terms of priorities, getting our telecoms right and that connectivity is vital. We have about 70 not-spots in mobile coverage. Some people are very large users of mobiles and others less so. Some have given up on using mobiles because of dropped calls. We are in correspondence with the Department and Ofcom, and we have an upcoming meeting with Vodafone to get a better understanding of the problems. According to the evidence that we have had in recent months, some of those problems are getting worse. There appears to be more congestion as well as gaps in the network. There is a national network to try to encourage all operators to work together to address those not-spots. So, on the priorities, telecom connectivity is vital.
1589. On the infrastructure, it is about that strategic road network, and we are all aware of the gaps in that. It is about connectivity within Northern Ireland and with the Republic of Ireland. It is about connectivity to our ports and airports. It is not about just trade; it is about access to work. People will typically travel for 30 to 40 minutes, so having a very good transport network will enable more people to get to where the jobs will be. With foreign direct investment,
- a lot of global investors and business services will cluster their activities around cities. That is the nature of the game, so that is going to be Belfast, Derry and possibly Newry. We need to make sure that as many people as possible have access to that network.
1590. I will ask David to comment on the delivery side. We produced a major infrastructure report at the back end of 2013. A key element in that was that we believed that the system was not delivering. There was a lack of visibility, and we had procurement problems, challenges and judicial reviews (JRs). There were issues around skills and capabilities. Early last year, the Finance Minister, under the procurement board, set up a subgroup, which eventually reported this time last year. It came to fairly similar conclusions to those of our report. There have been some changes. One recommendation was for greater centralisation, and, since then, we have seen health estates come within the Central Procurement Directorate (CPD). There is still significant frustration at the lack of visibility. Some capital is going into buying buildings back. Part of the evidence from our members is that, because we still have so many problems on the procurement side and projects are not ready, the easiest thing to do is to buy buildings back. That is not delivering jobs, a better economy or more competitive infrastructure. Clearly, we are going to see an Infrastructure Department, which will come into play next year. That is a welcome move to create more of that centralisation. So, we have seen some progress but clearly not as much as we would like.
1591. We had a meeting about infrastructure with about 20 companies last night. There is clearly significant frustration out there at that lack of delivery and the barriers that go up. It is just not easy. There is a view that we are just not ambitious enough in what we need to do. It needs to be much more outcome-focused rather than process-focused.
1592. **The Chairperson (Mr McGlone):** What you said resonates with me. Wearing another hat, I am also the chair of the

- all-party group on construction. The issues that you mentioned are the very ones that I and others on that group are picking up regularly. For example, capital schemes are not moving as efficiently as they should, and we do not know why. There is no apparent reason why those schemes should not be getting off the ground. Of course, there are other factors such as JRs and procurement issues.
1593. If we are going to deal with our infrastructural problems and issues, a key part of the development of the economy is obviously the support of the construction sector. We can talk until we are blue in the face, but it is a very substantial part of our local economy and it is the bedrock upon which the infrastructure will be developed, which is the key element to joining up all the pieces.
1594. You said that you had a meeting last night. What is the analysis of the position that we are in at the moment? Are we starting to see more strategic and efficient development and more responsive delivery of capital projects that will tie in with the infrastructural requirements that are so needed if we are to launch the North as a viable place for additional investment post a decision on the rate and date for corporation tax?
1595. **Mr David Fry (Confederation of British Industry):** We did not hear from any of our construction members yesterday — you will be quite familiar with many of them, Chairperson — that any of the changes that have been made so far have given them any greater confidence. There is clearly a process that is being engaged with on the transfer of health estates to CPD and the implementation plan that we talked about that was presented by the subgroup on infrastructure last summer. I know that, very recently, CPD published guidance on updating the pipeline and having senior responsible officers in each Department — the permanent secretaries, I think — to update that. In terms of giving that greater confidence that the industry has always looked for,
- what is being seen at this stage is not enough.
1596. One of the comments that was made again, you will be familiar with it was that the capex spend is around £1.2 billion but the industry sees around £450 million a year because the rest of it goes into other things. Do not get me wrong; I am not saying that IT is not important, but the construction sector sees maybe just under half of that each year on the ground. That drive towards greater centralisation of procurement and delivery, matching what is done in other jurisdictions, is important. A lot of the construction industry would say that it partakes in business in Britain or the Republic, and it seems to make sense and deliver projects on the ground in a timely manner. It strikes us as something that should be deliverable here. Perhaps, in the context of departmental reform, that is —
1597. **The Chairperson (Mr McGlone):** Particularly given that this is a relatively small place.
1598. **Mr Fry:** Yes.
1599. **Mr Smyth:** There were some positives. There is a lot of frustration out there. There is a lack of confidence in the system, despite even in recent weeks the introduction of new guidelines on visibility regarding projects. Very few people around the table believed that this is going to be populated. At the same time, there were some positive comments, particularly around Transport NI, which is bringing forward a number of projects despite not having the budget for them. That has been one of the problems in the past: we have sat there and focused on a project and something has happened to it — perhaps an environmental challenge has come up — and we have not been prepared or been in the position to spend money somewhere else relatively easily.
1600. A couple of our members commented that Transport NI is bringing forward a number of shovel-ready schemes. In our report, we argued that all the key Departments should have a number of

schemes lined up because you never know what is around the corner that could undermine one of those potential schemes. There has been some progress but there is still a significant way to go.

1601. **Mr Dunne:** Thanks very much, gentlemen, for coming in this morning. We are very supportive of what you said, and we share your enthusiasm. I reassure you that we are enthusiastic about what we do here, and we want to see progress being made and driven forward, especially in the economy. There is talk about the need for skills and the development of skills. Do you see potential here for the need for new skills being developed?
1602. Secondly, you mentioned STEM subjects. We feel that there is a major gap with those, and we certainly share your thinking on that. We still have issues in relation to schools engaging with employers, business and industry. How do you think that could be improved? We do appreciate the work that is going on with colleges, which are willing to listen to new businesses that come in and design courses and schemes for them. Obviously, there are the links with universities, which are important and, in many ways, are challenged in relation to funding. Can we have some feedback on those issues? It is important that we do more to encourage young people into business and make young people more and more aware of the professional jobs that are in business, not just that there are blue-collar jobs, which has been the perception over generations. There are real jobs in there that offer career opportunities, and they are there to be explored and developed.
1603. **Mr Smyth:** I will kick off. Skills are absolutely critical. It stands out. We have done a lot work around the education and skills piece. We had two major reports last year on that. One looked particularly at the whole business education piece, and the other looked at the education piece. You mentioned new skills. A lot of the investment that we are getting is in business services, IT, financial

technology — fintech — sectors and creative industries. I think that the view will be that, yes, new skills are emerging from that and that there are new jobs, particularly around the Internet etc. The answer to that is very much around good engagement between employers and the FE and HE sector.

1604. In the school system, we are arguing for robust, rounded and grounded young people who have the basics right in maths, English and, increasingly, computer science. We believe that computer programming should be compulsory from primary level all the way up. We are in the digital age, and every job and every company has to put more resources into that. With young people, it is all about attitudes and behaviours. We are quite clear that labour market forecasting is difficult. We need to do more of it, and, indeed, there is an initiative under way regarding the skills barometer between the Department for Employment and Learning and the University of Ulster. We need to be aware that skills forecasting is a difficult area, so we need a lot of our young people to get the basics right and have the right attitudes and behaviours. In all of this, there will be volatility and flexibility, and people will have to reskill, re-engineer and redesign. They will have a number of jobs as we go forward.
1605. The answer to this is very much around that focus on careers; it is about being much better at careers education and guidance. Part of that is about motivating our young people and highlighting opportunities. There is some very good work out there on where the opportunities are and how those might change. We have to do better work on getting a better understanding, as we highlighted in the paper. Getting a lower corporation tax rate will be a step change for the types of investment and the quality of investment that we get into here. Some of that will require young people and young graduates. A more difficult challenge is getting some of those more experienced people and bringing them back into Northern

- Ireland, and it will take some time before we deliver on the back of that.
1606. On the second area that you mentioned, we do have a STEM strategy. We are probably ahead of parts of GB on that. Our argument in the paper is that we need a much more ambitious implementation of that. There are issues about studying single science subjects in schools and other things that we mention in our education report. We certainly see a lot of opportunities in that sector, even with maths. In France and Germany, 65% to 70% of young people do maths post GCSE; in this country, I think, it is less than 20%. They do not need to do an A level, but, before they leave school, we need to make sure that they have basic competence in the likes of maths. We need more maths as well as some of the science subjects and the likes of computer programming. I think that six schools are teaching computer programming at A level, which is probably fewer than were doing so 10 years ago. There are as many jobs as we like in that if we can convince more people to study in those subjects. Looking at engineering skills across the UK more widely, there is a dearth of engineers and a major concern in industry about some of those skills. We pick up a lot of concerns about the lack of electrical engineers in our universities. Again, we educate fewer in our universities now than we did 10 years ago. These are very important people to high-value-added manufacturing, which certainly has a future. David, do you have any further comments?
1607. **Mr David Gavaghan (Confederation of British Industry):** Nigel used the words “even maths”; I would say, “particularly maths”. I am thinking about computer literacy. The Chairman has already mentioned that this is a small place, and it does not need very much to get a real focus on these issues.
1608. **The final point I would like to make is this:** we probably do not do well enough on languages. Our inclination is to rely on the fact that, increasingly, English is the global language. I have often thought that a particular focus on China and learning Mandarin would be a really interesting area to develop and would give us an extra selling point. For quite a number of children, our education system is good, but, with a little more focus and effort we could really create capability and stand-out.
1609. **Mr Dunne:** There has been considerable work done by the universities in relation to China. You are probably aware of that. We are obviously pushing to develop links with China, especially in the agrifood sector. There is a huge initiative — I think it is under way this week — but there is still a tendency in Northern Ireland to push young people towards professions such as the law, teaching and health, rather than into engineering and manufacturing. You are right: electrical engineering and maths are linked. To have a good understanding of engineering, you need to have a good understanding of maths. There is still a shyness, even at school level, about maths, and I suppose we need to put more emphasis on it.
1610. **Mr Gavaghan:** I agree completely. If there is the political will to implement the proposal in the paper to make maths and English compulsory until 18 for all those at school, that would be fantastic.
1611. **Mr Dunne:** Is there a possibility that the IT world has put willingness to develop maths and engineering skills at risk?
1612. **Mr Smyth:** I do not think so. We argue that we need more IT programming; but you need good analytical and maths skills. It is all part of that. The biggest opportunity is probably in the IT sector, but there are other, broader sectors, such as advanced manufacturing, energy and business services, which we talked about. A lot of those still need to have the basics right. I do not think that an overdue focus on IT will take away from that broader need and the opportunities that exist outside.
1613. **Mr Gavaghan:** May I make a separate point related to the previous discussion? As regards an awful lot of

- the discussions that we have about initiatives, we need to have dates. In the same way that we talk about a date and rate for corporation tax, we need to set timelines for the implementation of all the other things and have benchmarks. One project I was integrally involved in, and that had the great benefit of history behind it, was the Titanic centenary. We delivered that building, which has had a seismic impact on tourism and positioned the story of Belfast and the Titanic globally.
1614. If we cannot make the study of maths compulsory, we should set a date, whether it is 2017 or 2018, and the percentage of students who should do it. We could do that for all these projects with the benefit of collaboration. It would be amazing to see how much we could achieve. What we tend to do — and we in the business community are as guilty as anyone — is talk about an idea, without setting a date and a level of attainment. If we just did that, it would be amazing what we could all do, because we would feel embarrassed if we had not got there.
1615. The other thing we should do is benchmark everything against other regions in the UK, the Republic of Ireland and Europe, so that we could see how we did relative to them. Again, that would create an embarrassment factor or, the opposite, a great sense of achievement. Sometimes, the architecture of how we look at issues is not done in the way that would help us to achieve it best. I know that there is a lot of anxiety about doing that, but, actually, that is the stuff of life.
1616. **Mr Dunne:** We need to set SMART targets.
1617. **Mr Gavaghan:** That is precisely right.
1618. **The Chairperson (Mr McGlone):** For the likes of me, who does not know that much about it, could you expand a wee bit on the skills barometer and how it is anticipated that it will work?
1619. **Mr Fry:** The Ulster University's Economic Policy Centre is still developing that work. I am not aware of any set timeline and it will not be published as such. There are various stages to it, and it is a work in progress.
1620. As Nigel alluded to earlier, it is difficult to say that, in 2025, you will need 5,000 of this or 10,000 of that, so they would be reluctant to do that. What they can do is to look more at the trends going forward, what we need to be thinking about and, importantly, the time lags between the secondary and tertiary education systems and how that feeds into the needs of the workforce. That is the piece of work they are working on. However, I do not think that the intention is for the centre to produce a piece of work that will be set in stone.
1621. **Mr Smyth:** It will be an iterative process. I think they intend to come out with the first iteration in the summer, but it will be a continuous process. Labour market forecasting is difficult, but, at the moment, we have very little out there. Something will be better than that, and it will hint at the broad sectors, the development needed and general trends on which we should be focusing our activities.
1622. **Mr McKinney:** Thank you all for the presentation. You talked about the silo mentality in government and how getting rid of that is a way forward. Can you point to initial misses or [*Inaudible.*] in the existing silo mentality as you see it?
1623. **Mr Smyth:** The classic one was the draft Budget in December, in which there were quite significant cuts, particularly in employment and learning. That is fundamental and is our key priority as we go forward, and, if anything, we will need more investment in that area. There is also the issue of alignment and whether we have the right courses. A lot of it is about choice, but I think that that was a classic case. At a time when we needed to protect the level of spending in the area, the draft Budget proposed quite significant cuts. Even in the final Budget, in which DEL received some additional moneys, the universities, which are probably our biggest concern, received cuts and are now funded well below the UK level. The worry and

- concern as we go forward over the next four to five years is the sustainability of that.
1624. **Mr McKinney:** I am sorry to interrupt, but would getting rid of the silo mentality have made a difference? After all, it was a budgetary consideration thereafter.
1625. **Mr Fry:** To our eyes, and to those of other organisations, when the draft Budget was published it just looked like it was a case of top-slicing. An amount of money was taken from DEL. That did not seem to have any due consideration of what DEL offers and the outcomes it produces, and I am not sure that this is the best way to formulate policy. There are better and more strategic approaches to doing that. If this is about producing highly skilled graduates and the number required, then it is difficult to say to DEL that it has to take that amount of money out and then go and sort out how it will proceed.
1626. **Mr McKinney:** In your presentation, you pointed to the fact that we will change the types of Departments we have and reduce their number. Outside that, or consistent with that, what recommendations would you make to the Executive on integrating policies and strategies?
1627. **Mr Smyth:** We have an economic subcommittee, but it is not clear to us that it is having an impact on Departments. If it were, we would probably not have seen that decision on budgets, and there would have been agreement within the Executive and an understanding of the importance of where we need to invest and what we need to do. It is about that economic piece and having an effective and integrated strategy. There is an economic strategy, but is there sufficient buy-in from all the Departments? Are we doing all the right things? Do we have the level of ambition all the way through to make things happen?
1628. Going back to infrastructure, there is a view that there is just not that drive or ambition, whether among civil servants or elsewhere. It is all too easy. Lots of barriers are thrown up, and we have a risk-averse culture. We need to grasp this issue and say, “This is all about outcomes”.
1629. **Mr McKinney:** That is diagnosing it.
1630. **Mr Gavaghan:** There is a cross-cutting theme. Frances Ruane from the Economic and Social Research Institute (ESRI) is one of the members of the Economic Advisory Group — I think that she is about to retire — and one of her recommendations is that, in everything we do across government, we should look at the competitive position of Northern Ireland. Our ability to see our competitive positioning is a fundamental plank of what we should do across everything in government and the private sector. That is a critical area that, at the moment, we are not addressing.
1631. **Mr McKinney:** Yes, you could put that on the top of the sheet as the ambition piece or the direction piece, but how do you then —
1632. **Mr Gavaghan:** I am sorry for interrupting. I have not looked at this for a while, but Frances would argue that in the Republic it is not only the top piece but permeates through every aspect of the endeavour of what the Government are trying to do. If you listen to some of what the Government are trying to do, you will see that they are positioning the Republic of Ireland. In fact, Northern Ireland is doing extremely well in certain areas, but it is about doing it on a joined-up basis.
1633. **Mr McKinney:** So, we are simply not doing it.
1634. **Mr Gavaghan:** That is her view. Her view is that it is not a systematic approach.
1635. **Mr McKinney:** How can that be solved? I know what you are saying about what it would look like at the end or what the results would be, but how do we get from now, when it is not happening, to practically driving that ambition through every Department and organisation?
1636. **Mr Gavaghan:** I do not have the expertise to give you a proper response

on that, but, if it is an area that resonates with you, we should sit down and talk about it again. Frances is particularly erudite on the subject.

1637. **Mr Smyth:** The way to achieve it is to have a Programme for Government with a smaller number of key ambitious outcomes. In that way, you would be focusing attention on outcomes. We have a very process-orientated system. Yes, the second Programme for Government had 80-odd priorities or outputs rather than the initial 300; so we are moving in the right direction. Hopefully, the one in May next year will be much smaller. It is really important to get Executive buy-in. We need buy-in from everybody, and that needs to be ambitious and impactful to develop the economy, address social inclusion, etc. It should have a smaller number and be very much outcome-focused. Everybody should weigh in behind it and align it so that those outcomes will automatically fit in. It was always going to be Departments, but if we all work together with the same goal and drive to achieve that, that is probably one of the key ways of delivering that.
1638. **Mr McKinney:** I will give you an example. As you know, Chair, I also sit on the Health Committee, and one of the things that frustrate me enormously is that the Health Department is refusing to extend purchase, or consideration, to innovative new drugs. As you know, the global piece is around innovative medicines, and the Department's refusal to buy-in to innovative drugs is, I think, causing untold damage because the big pharmaceutical companies will not look to Northern Ireland. Yet, that could be one area in which we could make enormous strides in creating new jobs. For me, this is a perfect example. I am interested to know how you can get that. The Health Department is not seen as being a job creator or as having anything to do with jobs, yet, if it purchased innovative drugs and bought into that, meaningfully, it would have an enormous impact on the DETI piece.
1639. **Mr Smyth:** To be fair, Health has a good joined-up initiative with DETI on some of the technology. It is fairly early days, but I am hearing encouraging noises about that in terms of the recognition that Health is a major economic driver in that.
1640. **Mr Gavaghan:** Urbanisation is another cross-cutting theme that, again, is a global phenomenon. There is probably not enough policy as regards looking at the concentration of the population of Northern Ireland around the principal cities and, in particular, Belfast.
1641. If we are competing in a global marketplace, which we are, and are increasingly turning our minds towards a competitive tax rate, then we need to ensure that Belfast can compete as effectively and as strongly as it can. I know that this may be difficult in terms of some of the politics but the fact is that it is where wealth creation in this jurisdiction will arise. If you look at Government policies in the rest of the UK and the Republic of Ireland, let alone anywhere else in Europe, the need to focus on Belfast as the key generator of wealth is fundamental. I do not see that as being a complete focus of activity in either the private sector or the public sector. I welcome the focus from 26 councils to 11, but Belfast City Council and Belfast as a driving force for wealth creation, is fundamental to the future of Northern Ireland. That would be another cross-government policy that I would implement.
1642. **Mr McKinney:** Thank you very much. There are, obviously, further questions to be asked.
1643. **The Chairperson (Mr McGlone):** Absolutely. There is one point I want to raise. I know that it ties in with the politics of the mandate but given the strategic aspect of what development should be, is a five-year Programme for Government long enough? It depends on all sorts of political factors and I am wearing a different type of political hat here and I am being a bit of a devil's advocate. Should the Programme for Government be a 10-year one or a 15-year one in respect of certain objectives with the time frames that you are talking
1649. **Mr Smyth:** I think that is a good question. I think that is a good question. I think that is a good question.

- about? Some of them will be realisable within a couple of years but some of them may take five, six, seven, eight or 10 years to realise, depending on the objective.
1644. Is there any sort of further thinking that should be done around that, subject to the qualms of what might be happening politically? Take Nigel's five key areas, for example; some of those may be realisable within a couple of years and some of them may not. Therefore, if an Executive adopt, say, five key thematic areas, not all of them will be realisable within a five-year mandate. Some of them will be a work in progress, some of them may be at a more advanced stage than others and some may not even have started. Is there any thinking that should be going on around that?
1645. **Mr Smyth:** Absolutely. We see that being set out in a long-term vision in an economic strategy that may be a front piece of a Programme for Government. The Programme for Government has to focus on those five years but it is critical that we know where we are going beyond that. Whether it is in education or infrastructure, these things take a long time, so you need to have that vision. We need to paint that vision and get buy-in and that has to be an ambitious vision. The Programme for Government, which is a five-year programme, needs to fit in. That is the journey and direction in which we want to go on the back of that and the two can go together. In terms of accountability, you need to say what it is that you are going to achieve over the five years but that is only part of the journey to where we are going. That bigger vision is critical in raising people's ambitions and aspirations.
1646. **Mr Gavaghan:** One important aspect of your question is the population. In too many fora, you hear that the population of Northern Ireland is 1.5 million but the population today is 1.8 million and in the next 10 years it is likely to grow to somewhere around two million. The challenge for us on the island of Ireland is that the population count is around 6.4 million. I am doing a lot of work at the moment with Engineers Ireland on an updated report that looks at the population growing to eight million and possibly 10 million by 2050. Those are seismic shifts in population growth; Britain is also seeing enormous growth in population.
1647. These are fundamental aspects to planning. For me, that is one of the central issues. Where will the population be? What will it look like? What is the growth and the nature of the employment that will take place to create that wealth around that population? If you take other global movements, we will see significant additional population increases from immigration. Obviously, there will be a government review of that, subject to the European decision. These are fundamental aspects. My view about the population of Northern Ireland is that it is likely to grow significantly above two million in the next 15 years, but that is a personal view and is not necessarily borne out by the statistical research. These are fundamental issues in planning, and they will have an enormous impact on the allocation of resources.
1648. **Mr Humphrey:** Good morning, gentlemen, and thank you very much for the presentation. Given Northern Ireland's reliance on the public purse, despite attempts to rebalance the economy, what is the CBI's view of the election of a majority Conservative Government in the United Kingdom and the effect that that might have here?
1649. **Mr Smyth:** We are absolutely clear that we are a non-political organisation; it is up to the voters.
1650. **Mr Humphrey:** I assume that you have a view.
1651. **Mr Smyth:** I can send you the press release that I sent out on Friday. We want the Government — it happens to be a Conservative Government — to focus on pro-growth, pro-enterprise policies. The concern will be around the Conservative Party and the future of Europe. That is one of the points that we highlighted in our report. The



- Conservatives tend to be focused on a fairly pro-business agenda, and we want to see more of that, but there is significant work to do on education, skills and infrastructure. Those are issues nationally as much as here. The European question gives us concerns. We did a major piece of work on that in 2013. Over 70% of businesses benefit from the European market, while 80% of our members want to stay in a reformed Europe. That will be the key issue over the next number of years. A number of the reforms would be supported by other business organisations across Europe and, indeed, by some Governments. The question is this: how far can we go on the back of that? That has a big impact on the corporation tax debate, because companies investing here are not looking at Northern Ireland as a marketplace; it is a marketplace into the UK or, in most cases, into the broader Europe.
1652. From a Northern Ireland perspective, there will be concern about benefits. We do not know where that will go, but we have a disproportionate number of people in the benefits system, so we are more exposed. That re-emphasises the need to create more jobs in Northern Ireland and to get people off benefits. This is all about opportunities. You need to create opportunities in the first place. You then need to make sure that our young people and those on benefits are incentivised to get into work. Vitally, that comes back to education and training and making sure that those people have got the qualifications and skills required to have a career and to progress in life. From the point of view of government overall, it provides a certain stability, and businesses look for stability. That is important for any investor, whether indigenous or a foreign global investor coming into the country.
1653. **Mr Agnew:** You said that 80% of your members wanted to stay in Europe: is that in Northern Ireland or UK-wide?
1654. **Mr Smyth:** Based on workshops or groupings that we had, the percentage is UK-wide. It might even have been marginally higher than that in Northern Ireland back in 2013, but the figure is UK-wide. It was a substantive piece of work that was done. We looked at the alternatives. Europe is not perfect. We want to see reforms, but you have to look at the alternatives. We do not believe that any of the alternatives, whether being totally separate or following a Norwegian, Swiss or Turkish model, will work for UK business in the current European Union. However, we would like to see some reforms and have set out our agenda for what those reforms should be.
1655. **Mr Humphrey:** You said that the confederation is keen that we have a date and a rate set for corporation tax as quickly as possible. I and my party share that view. Other parties can speak for themselves when it comes to the rate and the date. I asked this question of the Northern Ireland Chamber of Commerce in Committee a few weeks ago: what are the opportunity costs to Northern Ireland plc of not having corporation tax devolved and at the rate that we want it set?
1656. **Mr Smyth:** If I am right, it is the opposite. The benefits are transformation, opportunities and much higher value-added and productive sectors. We are seen as a relatively low-wage economy, and we can drive up wages only if we have more-productive, higher-value-added industries and sectors in Northern Ireland. It is also about bringing in higher-level functions.
1657. We do not need to look very far — just south of here — to see the benefits of a low corporation tax regime, plus the skills and infrastructure growth that we have seen in the Republic of Ireland over the past 20 years. That is continuing to power on. It has significantly higher wage levels.
1658. The opportunity cost would be us giving up the opportunity to transform the economy, create more opportunities and career paths, retain more of our best people in Northern Ireland and attract some people back. That would filter through the economy, whether companies are large, medium-sized or

small or companies in the retail sector. That is why there is such a broad spectrum of support for it in Northern Ireland. It is not just about attracting global investment but about facilitating the development of, in particular, medium-sized companies in Northern Ireland. Our evidence is that at least eight out of 10 of them, perhaps more, would reinvest profits back into their businesses and develop them, whether through skills training, innovation or higher pay levels. We would have a more productive and sustainable economy.

1659. **Mr Humphrey:** On business rates, when the Chamber of Commerce was with us, I raised the issue of a businessperson in Belfast who came to see me having been hit with a rates bill of £76,000. Business representatives like you believe that rates are too high. What is the CBI's view on business rates at the moment?

1660. **Mr Smyth:** The rating revaluation that we have just had has caused there to be winners and losers, and we have been arguing that for the past 20 years. The revaluation has to be undertaken every five years. We have seen significant losers. You do not hear from the winners, unfortunately, because they are better off. We want stability. It is a system that is based on property values, and so on. There is a major review of rating going on at a national level. I understand that we will look at the outcome of that. Ultimately, the rates bill is unlikely to change, and there may be more winners and losers, so it is going to be difficult. The particular problem, and we have heard a number of concerns recently from the losers, as it were, is that there is such a big gap between valuations that they have been hit by a very significant increase, and that is very difficult. Companies want stability. They want to know ahead what is happening to energy prices or whatever, and they then do their best. The trouble is that they have been given less than 12 months' notice of a very significant hike in the costs, which there is not a lot that they can do about. A more regular valuation is one way of

addressing that. As I said, there are going to be winners and losers.

1661. **Mr Humphrey:** Mr McKinney touched about the silo mentality, and I think that you mentioned the curriculum and a statutory requirement for young people to have work experience. I listened to what you said, and I appreciate the work that your organisation has done. How can we get a more joined-up, collaborative approach from business, the education authorities, the universities, the regional colleges, and so on, to do just what you have talked about, which is to attract more young people into the world of work and for them to go for apprenticeships in order to get long-lasting, meaningful and well-paid employment? Can more be done?

1662. **Mr Smyth:** Of course more can be done. We put our hands up and said that, first, businesses need to be doing more. Some companies already do a lot. We need to get the message out that there is a terrific new route into apprenticeships. We are now developing apprenticeships. We want them to be seen as vocational A levels. We have a system that is very academically focused, but we need some of our brightest and best to be making sensible choices. There are very good career progression routes. Obviously, the new higher apprenticeships are developing. People may eventually want to go on to university or to take higher-level qualifications. That will take time. We know that a new qualification of any description takes about four to five years to become common currency and understood out there by the broader community. However, the direction of travel is good. Businesses have to play a bigger role in providing good-quality experiences in all of that.

1663. We put a massive focus on the whole careers education and guidance piece. There is a structure government, both in DEL and the education system. The quality of careers guidance has been improving, but we need to involve more businesses in that. We need better labour market information. We need to indicate to a lot of our young people

that most employers recruit on attitudes and behaviours. We do not measure that. It is built into the entitlement framework, but the inspectorate has a limited amount of commentary on those softer types of skills. It is very much qualifications-focused, and we need to move away from that. That is our message across the UK. In Northern Ireland, we need to try to capture that. If we start measuring it, more focus will be put on it.

1664. **Mr Humphrey:** Some of us were recently on a trip to Stuttgart in Germany, where we looked at how the city Government and the Bundes Government run the region. They do so very successfully. There is almost no unemployment. There is very little, if any, youth unemployment. Companies such as Porsche are a perfect example. Porsche was proactive. It went along to young people, many of whom were not qualified, and said, “We will give you employment, and we will train you in-house”. I appreciate that not every company is a Porsche, but that is a huge risk that that company has taken. It is the sort of innovative thing that we need to see here: a collaborative approach from government but an innovative approach as well from the business sector to address the issues. Do you agree?
1665. **Mr Smyth:** I agree. The position that Stuttgart is in is that the region has significantly larger — indeed, very large — companies with the infrastructure to be able to do that. In the past two to three years in Northern Ireland, we have seen a number of organisations, particularly business services organisations, some of which are national organisations, taking people from school. It is a case of “earn while you learn”, and that is a new model. We do need to move away from what we do currently to a more flexible model. The likes of PricewaterhouseCoopers (PwC), Deloitte and Kainos are out there recruiting school-leavers straight from school. They are working them in the workplace and are linking with the universities. I think that that will happen more.
1666. The challenge to overcome is that the vast majority of our companies are small and medium-sized. Even when we get into that medium space, having that infrastructure in a company to provide that level of training support is a lot more challenging than it is for a much bigger multinational. Particularly in Germany, there are a lot of very large companies. We should not underestimate the importance of that. In Northern Ireland, we are disproportionately represented by larger companies, and they have a very powerful influence on the curriculum and those types of initiatives. However, I totally agree that that will be a way forward, and we need to incentivise and encourage that. I think that the limiting factor is that there are a relatively small number of companies in Northern Ireland of the scale that could have that HR infrastructure to be able to do that. There is a lot of appetite out there for apprenticeships, and that is one of the routes. However, other work experience opportunities and other training initiatives are also involved.
1667. **Mr Gavaghan:** We should also put more focus on business start-ups and on encouraging young enterprises, so I think that there needs to be a bigger recognition of the sort of American culture of starting up businesses. The CBI and other business organisations probably need to do more on that front as well.
1668. **Mr Humphrey:** I think —
1669. **The Chairperson (Mr McGlone):** Briefly, please, because we have to move on.
1670. **Mr Humphrey:** It is not a question. As a result of the review of public administration (RPA) proposals and the new super-councils that we have in place, there are greater economies of scale, and more councils should be able to do much of the pump-priming of the like of the direct intervention that Belfast City Council was able to do in the days when I served on it.
1671. **Mr Kinahan:** I am sorry that I was not here at the beginning. Fearghal touched

on the issue of health and being able to afford certain drugs and others. That made me think down the line about whether there are hidden issues with the recalibration of devolution in Scotland, England, Northern Ireland and Wales. There are a lot of things that we cannot afford to do because we are too small. Drugs is just one issue, and there are others, such as pensions. Are there things that we should be looking for in that recalibration that will help us work better, instead of us just having everything devolved to Northern Ireland and being told, "That is your problem"? Have you looked at that sort of angle?

1672. **Mr Smyth:** I will probably struggle to respond to that. I am not sure that there is anything that comes to mind that I have looked at, and I am looking to my colleagues. Part of the problem here is that we have caused additional problems for ourselves through decisions by the Executive on domestic rates, lack of charging for water, student fees and very favourable public transport. We have caused an even bigger problem. In health, prescription charges is another example. It just seems crazy that the initial cost was estimated at £14 million yet it is costing in the order of £30 million. It is very nice to have, folks, but I am not sure that, in this day and age, it is affordable to do that. Hence, we have difficulties with other issues. Some of the decisions made by the Executive have caused a difficult situation, and we have supported, and continue to support, the fact that we need to reduce the deficit at a national level. Nobody wants austerity, but the reality is that we are spending beyond our means, and we have to bring spending down. The interest rate payment is vast and increasing. Part of that problem is very much that we have created even more problems. I am not sure what there is to say on other policy issues. Is there anything?

1673. **Mr Gavaghan:** Energy is an issue on both islands. By being more joined up, we can create better leverage. Forgive me for going back to the subject of cities, but the fact is that you have

to have a critical mass in a city, and Belfast has a population of 300,000. All things being equal, Belfast should be a population in the centre of half a million to a million. In my view, that is where we need to focus our energies.

1674. **Mr Fry:** I think that there is still clearly the issue that, before we start going down the route of seeking additional power transfer or anything further from Westminster, we still have to consider the fact that, in the context of corporation tax, we still have not got the power. The outgoing Government set the case that we need to have sustainable public finances. I am just making an assumption, but I think that a majority Conservative Government's definition of "sustainable public finances" is probably different from a coalition Government's definition. That is still a big debate that has to be had. If you do not resolve it, you simply do not get the power. That is something, from this, that will hopefully start that debate. As yet, that debate does not seem to have happened.

1675. **Mr Kinahan:** Thank you. On a slightly different tack, we have one enterprise zone being planned, and I know that Belfast International Airport is keen on being an enterprise zone. Do you think that enterprise zones are something that actually work, and would work in such a small province as ours? Is that the right way in which to look forward? Should we have a series of enterprise zones? Should we have one? What format should enterprise zones take?

1676. **Mr Smyth:** Going back two to three years, we looked at enterprise zones as part of the discussion around corporation tax and other matters. At that stage, the evidence, from looking back to the late 1980s and the 1990s, was not overly convincing, I have to say. We certainly did not believe that they would be a game changer. They could certainly have a local, subregional impact. We came down on the side of believing — this view is shared by other business communities — that corporation tax is the key way in which

- to go if we really want to transform the economy.
1677. I would not take away from their potential. As you said, the one in Coleraine is still planned. I do not think that it is even up and running yet. Yes, it could have a local impact, and we would not take away from that, but it is not going to have the strategic, transformational impact that, we believe, a lower corporation tax rate will have.
1678. **Mr Agnew:** Thank you, gentlemen. I am sorry that I missed the start of your presentation. However, I have heard your response. You have asked for an:
- “Employment Law framework which supports a flexible labour market”.*
1679. We have obviously heard a lot of concerns raised around zero-hours contracts, which, I imagine, would be part of that flexible labour market. How do you balance the needs of business to have flexibility against those of employees to have stability and predictability in employment?
1680. **Mr Smyth:** Let us take on the issue of zero-hours contracts. The issue involves only a very small part of the workforce, of the order of 3%. We accept that there are abuses of it — for example, the exclusivity clauses — and we support that view. The numbers have not been growing massively, as has been indicated. Some 60% of the people who are on zero-hours contracts are quite happy with being on them. Therefore, there is a lot of misinformation out there that zero-hours contracts are awful. For many people, they are a way in which to get back into the labour force, and many are quite happy with them and their flexibility. As I said, we accept that we need to get away from the abuses. In all of this, it is about balance. We expect to have an employment Bill come to the Assembly next month. We are now in a position in which we lag behind reforms in GB. A number of laws are putting us in a less competitive position than the Republic of Ireland. Ultimately, our political masters will decide on that. The point that we make —
1681. **Mr Agnew:** Can you give some specifics?
1682. **Mr Smyth:** One example is redundancy periods. We have redundancy periods that are much longer — three times longer — than those in the Republic, and they are twice as long as those in GB. However, that is not the biggest issue for many companies. GB has now moved on unfair dismissal, from 12 months to 24 months. A number of our members were keen to move in that direction.
1683. Look at the system of tribunals, which is a very interesting example. People need access to the law, and we do not have a problem with that. However, there are a lot of weak and vexatious claims out there. Great Britain has introduced a fee-type system that has reduced the number of industrial tribunals by 70% over the past 12 months. Those very frivolous claims are now being disappeared from the system, while genuine claims go through it. The level of fees set was higher than what the CBI recommended, but such things create fairness. I am regularly out and about visiting a lot of companies, and there is a frustration that a small number of individuals are being vexatious or whatever. There is a bit of a have-a-go mentality. Companies tie up time and resources in tribunals, rather than spend it on growing their business.
1684. You are absolutely right that there are people who are being unfairly treated by unscrupulous employers, or mistakes may have been made. Those people need access to justice, and it is absolutely critical that we provide for that.
1685. The view was that the system is very much one in which the employer is guilty until proven innocent. We think that, at a time when we need to maximise the number of people who are employed, the balance needs to move back a little bit more towards the employer side. At the moment, it very much favours the individual, and, in some cases — in many cases — claims are fairly frivolous or weak.

1686. **Mr Agnew:** When we look, for example, at the figure for the number of people living in poverty, we see that over 50% of them are in work. There is always this line about making work pay. I always object to the fact that we seem to do that by cutting benefits rather than by looking at employment. How do we make employment work for people? Some of what you are saying is around reducing conditions for workers. If over 50% of people who are in poverty are in work, that is evidence that employment does not work for some people. Admittedly, it obviously works for many.

1687. **Mr Smyth:** Since 1997, with working tax credit and other things, the percentage of people who are now on benefits has certainly risen very substantially and is significantly higher than that for those on unemployment benefit. We recognise that. We all have an aspiration to have a higher-paid economy in Northern Ireland, but, to achieve that, we have to have higher productivity. We can afford to pay more on a sustainable basis only if we are in higher-value-added and higher-productivity industries. Therefore, that is part of the reason that we have strongly supported the cut in the rate of corporation tax. That will bring higher-value-added industries to Northern Ireland and will allow many of our existing companies to invest more in innovation and R&D and move up the value chain. We anticipate and, indeed, the evidence is that higher wages will follow on the back of that. We are sympathetic, but there are no short-term fixes. Ultimately, it is about driving up productivity. Eventually, with a labour market that operates efficiently, pay rates will go up to reflect that.

1688. **Mr Agnew:** Some of the evidence around a living wage suggests that it would, in itself, raise productivity. Does the CBI have a position on the living wage? Do you encourage the living wage in your organisations?

1689. **Mr Smyth:** We certainly believe that the living wage should be a voluntary approach. We encourage those companies that can afford to pay it to do so. The key issue with the national

minimum wage is how it should be set. We are very supportive of it. The introduction of the national minimum wage was probably one of the most successful Labour Party proposals, but it is set independently by the Low Pay Commission (LPC). Again, in that, there is a balance to be struck. If it goes up too high too rapidly, it will undermine jobs. The issue is getting the balance between rewarding and having a floor. We need to accept that it is just a floor and a benchmark. If it goes up too high, it will take away opportunities out there, and that is the ongoing challenge. When companies are facing investment decisions about automation and various other things, they are looking at costs and at how they can take costs out. If you start to drive costs up much higher, the impact will be that there are fewer opportunities. There is a balancing act to be done. We believe that that is best done by the Low Pay Commission. Clearly, in the run-up to the general election, we were quite concerned at political commentary around that. We do believe that the LPC is a sensible way forward on that. In Northern Ireland, we have the highest level of low pay, so it is very important from our perspective too that we get it right.

1690. **Mr Agnew:** You will be aware of the Oxford Economics report on the living wage. It estimated that, if it were introduced, on 2012 figures, the living wage would bring in £132 million in extra consumption through increased wages to the economy. I know that the living wage or a higher floor, as you put it, for wages can be seen as a disadvantage to business, but, of course, if it increases demand and consumption, it can also be a driver for economic growth.

1691. **Mr Smyth:** That has been in the debate over the past number of months. I know that a lot of companies are very concerned about where we stand on the living wage, because it would put their businesses at risk — certainly their levels of employment. We have to take that seriously. Yes, it is something to aim for and to be encouraged, but

- we believe that the minimum wage, independently assessed annually, is the right way in which to go.
1692. **Mr Agnew:** In your document, you refer to the need to raise the:
- “ambition and aspirations of our society to ensure we deliver on the 40,000 additional jobs”*
1693. **that are predicted to come from a reduction in corporation tax. When you state:**
- “raising the ambition and aspirations of our society”,*
1694. what do you mean? What are you getting at with that point?
1695. **Mr Smyth:** What we are getting at there is that it will work only if we get our education and training right to do that level of alignment. It will bring in significant investment. We will require a lot more jobs. Some of those will be new jobs and skills. Some will require experienced people. That will require more people, whether they be those in STEM subjects, ICT or the creative industries. We may wish to see more jobs in advanced engineering. Again, we need to have skills forecasting, understand the impact and make sure that we communicate right the way down into the school system through our careers advisors etc, so that we align what people do in schools with an understanding of what will happen in the economy and where they can fit into that. We continue to lose a lot of people every year at A level, and the vast majority do not come back. We believe that this will create more productive, sustainable, higher value-added jobs. We clearly want to maximise the number of Northern Ireland people who can take advantage of that.
1696. **Mr McKinney:** Given that we lost, for example, nearly 30,000 jobs in the construction industry during the bust, and that there are over 312,000 inactive adults, is 40,000 jobs by 2023 in any way ambitious?
1697. **Mr Smyth:** One would like a bigger figure, but that is what the best assessments are indicating. These are additional, high-value-added jobs; you have to look at the other things. The evidence is that this will drive up productivity and wage levels. There is nothing else; we have not seen anything else that will help to bring about that level of transformation.
1698. **Mr McKinney:** On that point, is transformation required to get us to a higher ambition? What would that transformation look like?
1699. **Mr Smyth:** Corporation tax is one element. We tried to prioritise in our report the things that would really maximise the impact. Bringing down corporation tax could have a modest impact. We need to do the right things and plan, looking in particular at infrastructure. That was the message we heard yesterday. Infrastructure takes a long time to plan, so we need to go ahead and set out that plan. As the Chairman said, it is about having that economic vision for where we want to go. If we do everything right, we would like to think that we can exceed those targets. That is part of the future for Northern Ireland. It will be a much more highly productive, more self-sustaining, higher wage economy. We will attract more people into Northern Ireland and train the people that we have here to come back so that it will be a much better place to be and more successful overall.
1700. **Mr McKinney:** The headline figure of 40,000 would only bring us back to where we were. Will there be the dynamic to drive infrastructure and other developments that we need to take ourselves beyond that?
1701. **Mr Gavaghan:** Your question is very fair. I was talking to a man last week who was starting a new distillery in Belfast, and he touched on exactly that point. You make a very good point about the level of economic inactivity. Maybe we need the public and private sectors to sit down and say, “Maybe our ambition is not great enough, and we actually need to double or treble that.” I entirely

- accept the proposition, and I think that we should spend time looking at that.
1702. **The Chairperson (Mr McGlone):** I see that your most influential factors when choosing to invest are access to markets, political and economic stability, the nature and level of regulation, and that type of thing. I am picking up on the first two in particular wherever I go. The referendum on Europe, which you touched on earlier, could remove or dilute access to markets and, indeed, contribute to political and economic instability. Have you a more hardened view other than just to say that you want a reformed Europe? A reformed Europe could go from one extreme to the other. Is that just the CBI's diplomatic way of trying to catch all its members?
1703. **Mr Fry:** The first point that I would make about our position on the European Union is that, as Nigel said earlier, 80% of our UK members want to stay in a reformed European Union. I remember a consultation event that we held in the summer of 2013, and there was nobody around the table who would even contemplate leaving the European Union. There was just a simple, straight answer back. I know what the views of the parties are that make up the Executive in general: I heard them aired through the manifestos over the last two weeks. However, I do not know what the view of the Northern Ireland Executive is. I know what the Scottish Government's view is, as well as the Welsh Government's, the Irish Government's and the European Union's. I broadly know what the UK Government's view is. Given that, within the UK, we are the most susceptible region because of the proximity of the land border, it is important that the Executive, at some point over the next few years, if not rather sooner than that, tell the UK Government what their collective position is.
1704. One of the things that we have been critical of the Westminster Government on — Chair, you may recall the discussions during the last mandate — is the carbon price floor. That was being taken forward at a UK level, and it may have suited part of the UK, but we would have been significantly hit by it until we, DETI and the Committee took it forward as an issue and were able to find a resolution. You must make that case clearly and in a coordinated manner. That is a major concern that you would hear from both indigenous and foreign direct investors among our members. It is causing unsettlement around future investment.
1705. **The Chairperson (Mr McGlone):** Absolutely. One of the things that we hear quite often — it is quite often glibly thrown away — is that the EU equals increased red tape. But as we delve further into that, we see that the red tape has been caused by the interpretation of what they perceive to be the regulations that have emanated from Europe, and that can vary from state to state. In other words, you may have a quite rigid interpretation of something here, which, 50, 60 or 100 miles down the road, has been interpreted in quite a liberal way. Therefore, a lot of this comes back to the national Governments and how they do things.
1706. I have heard from farmers who are deeply concerned about their single farm payments, which will impact on the agrifood sector. I have heard from SMEs, 60% of which do business with the rest of the island, that are looking at increased red tape if anything stupid is done in Europe. Many of the bigger firms, which you represent, do business with mainland Europe. I hear your point very loudly and clearly. It is up to the Executive to give a very clear marker about what their position is in regard to Europe. That is how you see it. I will reflect on that. It will be very important, especially for inward investors, to establish with clarity and stability what exactly will happen.
1707. **Mr Smyth:** That will clearly be a major issue over the next two years. I referred to the 'Our Global Future' report that we produced in 2013; it is a bit of a tome. In that, we set out at a very high level some of the reforms that we think are necessary from a business



perspective. It is about ensuring that EU is much more outward looking and about unlocking the potential of the single market in services, the digital sector etc. There is also a big focus on regulating for growth and ensuring that, where regulations are made, they are appropriate, whether at a European or a national level. There is a fairly broad business agenda around that.

1708. The basic note in the report is that the cost for individuals is about £116 a year but there is a benefit of £1,200 a year, so the UK is actually much better off being in Europe than out. That view is not unanimous. We have some local members who are dissatisfied, and a lot of that comes from the regulatory part; they have said that they are fed up with the regulations. As you rightly said, Chair, how the UK has implemented that through legislation is an issue. This will be a significant challenge.
1709. **Mr Gavaghan:** I want to make one point on Westminster. Nigel and I attended a lunch yesterday with people from Invest NI, which had its global get-together this week. From a foreign investment point of view, as investors look at Northern Ireland and decide whether to locate here, the two key business decisions are corporation tax, which lies with us, and the European Union decision. It would be great if we could get a decision on Europe. It is there, a date has been set, and we want to see it done by the end of 2016. Business decisions on location will be put back until that decision is made. From a Northern Ireland point of view, more than 6,000 jobs in the pipeline have been identified by Invest NI, and you can imagine that a lot of those organisations will hold back on those decisions. Obviously, there is already a pipeline there, but, when you look forward to 30,000 or 40,000 jobs, those are key issues. If we are to transform from a public sector-focused environment to a more private sector-focused environment, we need to get that moving as quickly as possible.
1710. We know what the issues are. John Cridland spoke very well. He spoke on the radio at the end of last week. One

of the issues that we do not focus on sufficiently — we all know this when we cross the border — is the simple idea of a single market. We pay more for our mobile phone service, which is preposterous and not good for efficiency or competitiveness. There is a whole area where we need to get on with the European vision of a single market. My view would be “Get on with the decision as quickly as possible”.

1711. **Mr Frew:** The Committee heard evidence about the cost and associated bureaucracy around the regulations from the Northern Ireland Assembly, the UK and, of course, Europe, and that was despite moves by DETI to improve the regulations and to try to smooth away the red tape. What are your views on the regulations in their present form? Is it getting better or worse for businesses?
1712. **Mr Smyth:** We are keenly aware, and we have contributed to the reviews that were started nationally and have been reflected also in DETI locally. For us as a cross-sectoral organisation, the big issues have been around the employment stuff; we covered that and we are going to have an Employment Bill. We believe that that certainly has got worse and has maybe gone a little bit too far one way. The other factor is broad environmental legislation, and there have been some initiatives to try to deregulate it and make the regulations better. You have to look at lot of the regulations that impact on businesses on a sectoral basis, whether it is tourism with the pubs or the food sector. I had a recent communication on the telecommunications side. There are some regulations that are unique to Northern Ireland and that put us at a competitive disadvantage compared with the rest of the UK. I think that that is the way forward: regulations have to be looked at sector by sector. The CBI has 160 trade associations as members, and some of those local sectoral organisations are already engaging with DETI on that. Again, it is about trying to understand the impact and looking at where it is disproportionate and where we are at a disadvantage. I

accept that we struggle a lot in that area because there is a constant battle. The employment issue is our biggest general concern because it is cross-cutting.

1713. **Mr Frew:** The other issue that crops up is energy. The Committee has done a lot of work on that over the last number of years. We have had the energy debate and all the threats and pressures that are associated with it. For large energy users — large industrial employers such as manufacturing — it is a massive issue. The costs are some of the highest in Europe, if not the highest. I think that we are second only to Italy at present. Do you believe that energy is a massive issue for all the members that you are connected with and represent? Is it one of the biggest issues? If so, do you see ways of dealing with it? We are an island off an island off Europe, and there will be restrictions on what we can do with a limited grid.

1714. **Mr Smyth:** It is fair to say that, for many companies, energy is not the biggest issue; it is skills and various other things. However, there are a small number of significant large companies that are energy intensive and where energy is absolutely a critical issue, particularly in manufacturing. However, it is also reflected in Northern Ireland in that we have no data centres. We saw the announcement a few months ago of a massive investment by Apple, and there is already a number of data centres in the South. We think that their prices are around 10% less than ours. The South has a lot of large energy users; they are growing, and they are bringing in more large energy users, so the cost is shared by everybody. Northern Ireland seems to be in a perverse position in that we are at the very top, bar Italy, and we think that we may have even overtaken Italy with the tax changes. We are losing some of our larger users. Bombardier will come off the system and JTI Gallaher is leaving — they would be top 10 users — and we are not attracting data centres, so the outlook is very difficult.

1715. For a lot of companies in the commercial sector and even for a number of ordinary

manufacturers, energy might be 1% of costs, so it is not the key issue. Yes, they will complain about it, and they complain about the rates, but there are a small number of very big companies where energy represents 10% or 20% of costs. This is a pretty horrendous place to be for them, and we have not attracted them.

1716. As for answers and solutions, we have been at the Committee over the last few years, and you have done your own inquiry. There is no silver bullet, but there are a small number of steps that need to be taken, whether it is addressing things such as constraint costs in the single market now costing upwards of £160 million a year, and that is increasing. The North/South interconnector is an absolutely critical piece of infrastructure, and everybody needs to get behind that, North and South. We need to get that in place. The big issue that comes with that is the security of supply post 2021. We are going to have to make other decisions. We may have to invest more money and all of that will add to the cost.

1717. I think that we have been a bit slow off the mark around demand-side reduction and aggregated supply. That is starting to move, but it is one way in which you can reward some of the large companies that back up generation. We have seen some regulatory approval for that, but we have been a bit slow and there is more potential. The problem that we are now facing is that we have a very congested network and getting permissions for all of those is proving difficult.

1718. **We need to be more interconnected. We have had some good news on the Moyle interconnector in the past month or two in that it will be restored and at a lower cost than was anticipated. The extension of the gas network is going ahead and that, again, is more good news. We have issues around the public service obligations costs. We believe that some of the costs that businesses are picking up are additional proportional costs; likewise, there are some environmental levies,**

- as well as the network charges. That is the big difference in the South, where they made a political decision. This is probably a grey area:** they are in the same place as the rest of Europe in that the domestic sectors pay marginally more, but the larger users pay less, which makes them competitive. That is the main difference between us and the South.
1719. Some of the environmental charges in Northern Ireland are higher and will become even higher with the energy market reforms that are happening in GB in 2017. Perhaps this has hit us only over the past couple of months. Again, it is hard to see what the solution would be. We have a difficult situation. A small number of things could be done, and it is very important that we address those issues to try to make things better and give the larger users who are most vulnerable some sense that we are going to address those prices and that they are going to become more competitive.
1720. **Mr Frew:** There is no one on this Committee who is harder on the Department in energy debates than me. I have a certain sympathy for the Minister because the destiny is not her own; there are so many players in this sector and they all need to come up with solutions.
1721. One good thing about last week's decision — I do not know whether you picked it up — is that around €111 million is coming out of the capacity pot, which will help ease the pressure on the people who then have to bear the capacity payments. I believe that that is basically due to lowering the cost of borrowing, but I have not got the detail of that yet. Again, that will help business. Because there are so many players, would it be fair to suggest that, looking at the bar chart of the most expensive states and countries for energy, we set a target, as we have done for renewable energy, that we hit mid-range and put pressure on all the players to achieve it and come up with their own solutions? Would that be a fair target to have?
1722. **Mr Smyth:** As part of the Department's current consultation on the electricity market reforms and various things, our response states that we should have a target, but that it should be an emissions target. Ultimately, we have to decarbonise. We support that, but we need to do it at the least possible cost.
1723. Part of the issue that we have, particularly with the microrenewables in Northern Ireland, is that they are very expensive and, ultimately, they are paid for from the economic development budget. That is fine, but when it is some of the largest companies who are most vulnerable who are paying for this, then, hey folks, we may end up not having some of those big companies around. It is about the least cost.
1724. We think that the best way forward is to have a target, but to have an emissions target, because part of the solution here is energy efficiency. That really must remain a top priority. Renewables are part of the solution too, but it will be those at the least cost. Yes, if you want to encourage some of the microrenewables and new technologies, there should be some other fund or support available to achieve that. I do not think that Northern Ireland should be ploughing its own furrow by putting a penalty on our large users in favour of some of the microrenewables.
1725. **Mr Frew:** Many years ago, the Department set a target of 40% renewable energy. It was not all in its gift, but it basically just set a target. That may well be reviewed very soon, because it is very clear that trying to hit a 40% target for renewable energy would be very costly. That may well be moved, and I would welcome that. However, although all those years ago we set an arbitrary target of 40% and told everybody to reach it, surely it would not be beyond the realms of possibility that the Department would tell all the players in all the sectors that, for the second most expensive energy in Europe for large industry, the target is now in the mid-range of that and that they should get down to an acceptable level. Achieving that would let the pressure all

drop to the other players. Moving down that target or down that graph would save money because it is basically a cost graph of how much energy costs. So, moving down that scale would be of benefit to everyone, including, and probably most definitely, large industry and large users.

1726. **Mr Smyth:** At a European level, the targets have changed. The CBI was quite strong in pushing for an emissions target rather than specific ones for each area. We can achieve that emissions target, whether it is through renewables, energy efficiency, decarbonisation or the use of alternative fuels. You are right: we are up at 19% and 20% and, as we go above 25%, the network costs are considerable. A broader target may be required. One of the problems that we have not fully understood until now is the impact of the targets on costs. The Department has done some work on that, and it is absolutely critical that it gets a handhold on it.
1727. We believe that the Northern Ireland renewables industry could be competitive. There are public policy issues regarding planning, rating etc. We would like to see a very strong renewables industry. That is likely to come from large wind generation and some of the biomass energy from waste etc. That is advantageous because it is being bid back into our system.
1728. **Mr Gavaghan:** If the chairman were here, he would probably welcome a discussion with you on that. We should definitely follow up on it.
1729. **Mr Frew:** Obviously, the UK-wide contract for difference debate could have severe consequences for the renewables industry in Northern Ireland. You are fully aware of that?
1730. **Mr Gavaghan:** Absolutely.
1731. **The Chairperson (Mr McGlone):** Gentlemen, thanks very much for your time. It has proven very interesting. We have other written questions that we will submit to you, if that is OK, but that concludes our session for today. It was good to see you all again.
1732. **Mr Smyth:** Thank you very much for the opportunity. We will be happy to respond to your written questions.
1733. **The Chairperson (Mr McGlone):** Thank you.

## 26 May 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Phil Flanagan (Deputy Chairperson)  
 Mr Gordon Dunne  
 Mr Paul Frew  
 Mr Paul Givan  
 Mr William Humphrey  
 Mr Danny Kinahan  
 Mr Fearghal McKinney  
 Mr Máirtín Ó Muilleoir

### Witnesses:

Mr Peter Bunting *Irish Congress of Trade Unions*

1734. **The Chairperson (Mr McGlone):** It is good to see you again, Peter. Thanks very much for attending. I am sorry that, because of circumstances associated with the processes today, we are a wee bit light on numbers and a wee bit late in starting, so please forgive us that. It is good to have you along today to contribute to the inquiry into growth and jobs.

1735. For the Committee members, we have a briefing note at page 13, an earlier written briefing by the Irish Congress of Trade Unions (ICTU) at page 15 and a supplementary paper by ICTU at page 26 in the tabled papers. With us today is Mr Peter Bunting, the assistant general secretary of ICTU. I am sure that you are well known to most people and everybody in the room, Peter. The format, as you have probably been made aware, is that you have the opportunity to present your opening remarks — we have the papers here anyway — and then we will have a q and a session with members. Thank you for coming along today. The floor is yours.

1736. **Mr Peter Bunting (Irish Congress of Trade Unions):** Thank you, Chairman. We are probably a unique organisation in relation to the issue of corporation tax. We currently represent around 215,000 people in Northern Ireland. It is our view that the devolution of corporation

tax powers and, furthermore, the introduction of it would be detrimental to the welfare of the citizens of Northern Ireland. We base that on the empirical data in two reports: one by Sir David Varney, commissioned by the then Government of the United Kingdom, which played down the whole issue, and one by Richard Murphy. At that time we distributed a paper titled ‘Only Fool’s Gold’ — I think that was the title — to all MLAs. If you need that paper, we can redistribute it again to the Committee. It is our view that it is a huge gamble in Northern Ireland to implement lower corporation tax. The conclusion that Varney reached was that the cost would be too severe. It is reckoned that it would cost somewhere in the region of £350 million to £400 million. What that will do, primarily, is redistribute wealth from the poorer sections of society and those in need of public sector services to the rich, without a guarantee of the creation of one particular job. To those who suggest that we need it to compete with the Republic of Ireland, let us be clear: the Murphy report — not only that but our empirical data — indicates that the effective rate of corporation tax in the Republic of Ireland is between 2% and 3%, so, no matter what you do with corporation tax, you will never compete with the Republic of Ireland, in the sense that it is currently a tax haven.

1737. The difficulty that we have also relies on the phraseology of the Stormont House Agreement. Most of us from the trade union movement, certainly the leaders, have been around for a long time and have negotiated agreements. What staggers us is the fact that, according to the Stormont House Agreement:

*“The block grant will be adjusted to reflect the corporation tax revenues foregone by the UK Government”.*

1738. We were all very aware of that. It goes on: *“due to both direct and behavioural effects”.*

1739. That is the problem. Nobody knows what that means. What does “behavioural effects” mean? For example, if Tesco’s head office were to relocate to Northern Ireland to benefit from the reduction in corporation tax, would that mean that we would then have made 700 or 2,000 people redundant in its head office? Would we in Northern Ireland have to take up the slack and pay for the benefits then accruing to those staff? We do not know. What we do know is that not only could Tesco relocate its head office here as part of the United Kingdom but other companies could also do so. What does “behavioural effects” mean in that context?
1740. The other issue is that the people who will monitor the agreement will be Treasury officials. You can be guaranteed and you are experienced enough as politicians in Northern Ireland to know that, when the Treasury comes after you, it will seek to get every penny and will interpret the agreement to the benefit of the Treasury. That is one of the difficulties that we have. Sammy Wilson was right. He opposed this agreement for many years. I quote from our paper which states that, when he was the Finance Minister, Sammy Wilson said:
- “taxes affected by increased employment, such as income tax, national insurance and VAT, would not be part of any calculation by HM Treasury when it came to estimating the cost to their coffers of reduced Corporation Tax.”*
1741. One of the issues is that the proponents of the measure reckon that, by 2035, they will have created 34,000 to 38,000 jobs. I do not know about you guys, but I probably will not be around in 2035 to prove them right or wrong. It is a wonderfully long projection in time to see whether they are right or wrong.
1742. One of the difficulties — I keep coming back to the point — is that there are no sanctions and no prohibitions. If, for example, Bunting Enterprises was in receipt of the differential between the 21% and the 12·5%, there is nothing that would make me put the difference of that payment into creating jobs or research and development or increasing exports or employment. I could do whatever I liked with it and could invest in China or Asia if I liked. It is a huge gamble. It is a gamble about jobs, and it will cost £400 million. Every pound out of that £400 million is a pound less for health, which we will all be talking about today, a pound less for education and a pound less for all the rest of the benefits that we get from the public sector.
1743. Even though we may create jobs, the PAYE and the pay related social insurance (PRSI) will go back to the Treasury. We will not get any benefits in Northern Ireland other than some employment. Even the reduction in benefits will go back to the Treasury, if you want to put it in that context. There are no real benefits to Northern Ireland other than jobs, but it is a gamble. Nobody can create jobs or guarantee x amount of jobs because there are no sanctions in relation to that.
1744. The Scottish Government have refused to reduce corporation tax. If I was an American foreign direct investment company seeking to invest in a country that would be beneficial to me in having access to European Union markets, the last place that I would invest in at the moment is the United Kingdom. Why? It is very simple: the EU referendum. There is no guarantee that, in two years’ time, the United Kingdom will be part of the European Union. Why would somebody invest here? Why would they not go 45 miles down the road to the Republic and invest there rather than in the United Kingdom, when there is so much doubt about whether they will still have access to the European markets? Nobody can deal with that problem.
1745. In the European Union, there is a major debate in relation to corporation tax and the taxation systems in Holland, Luxemburg and the Republic of Ireland. We are all aware of what goes on. There is the double-Irish/Dutch sandwich between Ireland and Holland, and there is the furore over Luxemburg being a tax haven. That will be dealt with by the European Union, and I think that there will be more of a convergence in corporation tax rates across Europe

- rather than a reduction in corporation tax in the United Kingdom.
1746. The other important thing that really bothers me is this: on one hand, we are saying that we are rebalancing the economy under the Stormont House Agreement, and we will reduce corporation tax so that somebody can attract foreign direct investment or our indigenous companies will invest and create jobs. So, we are over here, and we all want to get high-value, highly paid jobs. That is what we need to attract into Northern Ireland. We all agree on that; there is consensus on that. However, on the other side, part of the Stormont House Agreement is a reduction in third-level places right across the education front to upskill people. Then we have a huge reduction in the number of lecturers at Queen's University and Ulster University and in the further education institutions. That is a huge contradiction. Any sane person looking at it would say that you cannot take money for upskilling our young people so that they are part of a highly attractive labour market for foreign direct investment companies and give it to somebody else. It is a nonsense; it does not add up. It is an oxymoron, for want of a better term. I cannot understand what you are all at, but I will leave those matters to you.
1747. Even the Chamber of Commerce agrees with the rest of us that our biggest problem in Northern Ireland is that we do not have a highly skilled labour market to compete. The interesting thing about the Republic of Ireland is that, in east Cork and Waterford, where the big pharmaceutical plants such as Bausch and Lomb are, they increased the number of places and changed their curriculums to meet the needs of the foreign direct investment companies for laboratory technicians etc. They invested money in education. They did not decrease jobs. The other thing about that allegedly wonderful place down there — the Republic of Ireland — is that they did not introduce 12·5% corporation tax until 2003. They had a 10% manufacturing tax from 1957 until 1987, when nothing happened. The economy was a disaster in the Republic of Ireland in 1987. Thinking that this miracle — this false idea of having a reduction in corporation tax — will attract people here is a nonsense.
1748. You were quite right, Chairperson, when you made a comment after visiting Stuttgart, that it is about how we do the investment and where to make it. Just in case you think that I am against business, let me say to you that in 2007, I went to the Minister for Transport in the Republic of Ireland, Martin Cullen, on behalf of Wrightbus in Ballymena and got him to purchase all the buses for Dublin Bus from Wrightbus. I did that along with the shop stewards. At that time, he did not go through European tendering systems; he came up immediately and took the idea. I introduced him to the shop stewards. When he came up to the plant, he got a standing ovation from the Wrightbus employees. He was met by the late Ian Paisley senior and Ian Paisley junior, and they will all attest to this, by the way. I brought in an £8 million contract there and then, and that has since increased to over £30 million. So, in case anyone thinks that I am anti-business, that is what I did for this all-island economy and for Wrightbus in Ballymena. Sometimes, I and the trade union movement are accused of being Luddites who do nothing for the economy. We did what we had to do for Wrightbus because it made sense.
1749. There has been an emphasis on the Scottish model and the SNP, which stated:
- “Creating a fairer society is not just a desirable goal in itself, but is essential to the sustained, long-term prosperity of the Scottish economy. Our approach to economic policy is based on the principle that delivering sustainable growth and addressing long-standing inequalities are reinforcing — and not competing — objectives.”*
1750. That competition will happen if we introduce corporation tax and transfer that wealth from those who are in need of public services. That £400 million will go to the business community in a gamble that none of us can say with any

- positivity will create x number of jobs by whatever date. None of us can say that. It is a ruse by those in business, and, to me, it does not make sense.
1751. That said, we maintain that, if there is some criterion, rather than the blunderbuss approach, through which you could say to companies that if they invest in R&D — having roots in research and development is the wholly best method of retaining any multinational corporation in any state — increase their exports, increase their employee numbers or even build clusters, then, by all means, it is criteria-based and performance-based, and they will be given the money. The clusters I mentioned are the foundation, as you will have seen in Germany, of many of the small and medium-sized enterprises, which make up the majority of Northern Ireland's economy. Unless we introduce sanctions into it, it is a goner. If I had a company, say, Peter Bunting Enterprises, and was a beneficiary of the differential of the reduction in corporation tax, nobody could say that I would not go off and invest it in China or that I would not buy a yacht or whatever. Nobody could contradict that, because there is no evidence. There is no empirical evidence that corporation tax will work for you; in fact, the evidence is to the contrary.
1752. You can read, in my submission, the last 10 points from Tax Justice Network on the effects of corporation tax reduction. By the way, corporation tax is crucial to the success of an economy, because it pays so much towards infrastructure development that allows companies that export their goods and services to get to the ports or whatever from the west of Northern Ireland. Those are issues for which we cannot suck money out of our economy. They are central issues. Corporate taxes can rebalance economies.
1753. Corporations around the world are hoarding cash. By the way, the big economic tome at the moment is that by Thomas Piketty; I am sure you have heard of him. Years ago, the industrial magnates and owners of factories put x amount of their profit back into production, innovation, new technology and creating new jobs and products. Currently, corporations hold the money, invest it in stocks and shares, make gains on that and pay their shareholders. That is where financial — I hate to use a word that reflects that I am a left-wing economist, which I am not, by the way; I am not even an economist. Anyway, that is where Piketty comes in. He won the Nobel prize, I think. Krugman is another one, as is Stiglitz. They all say that that is not the way to go.
1754. I will leave you with that, Chair; I have spoken for long enough. We have suggested alternatives to the Assembly on building and growing Northern Ireland. We have been on about the retrofitting of houses and the Housing Executive borrowing money. The retrofitting of houses will increase jobs in construction. There is also agribusiness, the creative industries, the innovation fund, investing in people, the living wage, skills and education, site evaluation rather than rates, the tourism bed tax and the use of procurement to create jobs. Anyway, Chair, I will finish there.
1755. **The Chairperson (Mr McGlone):** Thank you very much indeed for that, Peter. It was very interesting to listen to you, and I am glad that, on reflection, you decided to come here today to give that balance to the evidence that we have been hearing. A lot of the stuff around rates of corporation tax is, maybe, for the other Committee. However, I want to tease out some issues with you. You said that it would be detrimental to the citizens of Northern Ireland. You also said that the effective rate in the Republic was 2% to 3%. Will you expand on those two issues before I move on to others, for clarification, please? It would be important for us to refer to reference works that you have drawn those conclusions from before we move on to a few other questions.
1756. **Mr Bunting:** I suggest you read the business section of 'The Irish Times' from as recently as last Friday. There is an item on Apple's rate of taxation in the Republic of Ireland. Apple did a deal with



- the Republic of Ireland which means that it pays 2% tax. Apparently, at the moment, it is under investigation by —
1757. **The Chairperson (Mr McGlone):** Is that 2% overall tax or 2% corporation tax?
1758. **Mr Bunting:** It is 2% corporation tax. That is all they pay. There are more, of course. By the way, you do not even have to go the Republic of Ireland. Look at Starbucks in the UK and Next, and Philip Green's range of companies, where his wife is the owner, and she lives in Monaco. All those companies are there, even in the United Kingdom. I will supply the detail in Murphy's paper to you.
1759. **The Chairperson (Mr McGlone):** Thank you.
1760. **Mr Bunting:** In relation to it being detrimental to citizens, it is very simple. It is costing £400 million, and that is foregone out of the block grant to pay for corporation tax with no guarantee that a job will be created. That £400 million has to come out of the block grant for Education and Health, and that is why the delivery of public services to those who are in need in the marginalised communities across Northern Ireland will suffer, as will skilling up the people who we want to skill up.
1761. **The Chairperson (Mr McGlone):** I have absolutely heard that point. That is a fair anomaly in the middle of it all, given that cuts to those budgets are coming down the line and we are expecting to have a more skilled workforce ready for any foreign direct investment (FDI) projects that might come in our direction. For the record, we had Invest NI before us last week, and its evidence is that the feedback that it is getting from companies, both domestic and overseas — this is the important bit — is that they see reduced corporation tax as an incentive to bring FDI to the North and to increase jobs. It is reflecting through its office internationally that there is a fair bit of interest in it. In that regard, it sees it as a big selling point. Therefore, for Invest NI, the rate and the date is a key issue. Have you met Invest NI to get any feeling from it? Clearly, your members and potential members would be impacted by whatever investment might come down the line.
1762. **Mr Bunting:** Absolutely. Primarily, I want to say one thing to you. I am not against the creation of jobs. I am all for the creation of jobs. I do not see this as the mechanism or vehicle for doing it. That is the first point. When Invest Northern Ireland goes abroad, it is competing with the Industrial Development Agency in the Republic of Ireland, and there is a differential there. The other aspect of that is this: why are the overseas companies not in the Republic of Ireland or somewhere else? The Cayman Islands does not pay any tax. I have never been there, but, from what I have seen of it, it is not a hub of new technology. There are not thousands of jobs in it. That is the problem I have with this. People analyse the Republic of Ireland. I will supply you with papers on what happened in the Republic of Ireland. First of all, it had the most educated labour market in the European Union. It also spoke English, and, despite what some of us may think of it, it had a common currency with the rest of Europe. In Northern Ireland, we have sterling and a low-skilled labour market. Listen to some of our businesspeople such as Bro McFerran. They are all saying that they cannot get the necessary skills. We do not have a skilled indigenous population for the jobs that they are creating in technology and computer programming. By the way, I am not suggesting that Invest Northern Ireland is being disingenuous. I am just saying that, obviously, people would say that to you. There is another point, and I will dig this out from my resource. I recall a survey being carried in the Republic of Ireland a number of years ago on the major attraction that brought businesses to the Republic of Ireland, and the main points were labour market and access to Europe. Corporation tax was about seventh or seventeenth; I cannot remember which. Obviously, there is a huge gap there, but it was way down the list. The labour market, infrastructure and all these other issues were terribly more important than

- anything else. I will dig that out for you, Chair.
1763. **The Chairperson (Mr McGlone):** That will be very helpful. One theme that has been broadly running through our inquiry is the necessity for a more joined-up approach by government that is cross-departmental and cross-sectoral.
1764. Do you have any particular thoughts as to how things could be done much better in delivery? We are thinking about the foundation stone. It has been clearly outlined in all evidence given to us that corporation tax is not the silver bullet, but, if it is to operate, it has to operate in circumstances where other things are put in place, not least an Executive who are seen to be working in a very joined-up manner and delivering on the items that you referred to earlier, such as skills, infrastructure and all the things that have to be in place so that, when people come here, they will say, "Ah, good place to make the decision". That seems to be the broad theme of what we are hearing so far. Do you have any ideas — I am sure that you are well skilled from being around, dealing with and being associated with government for a long time — on how that could be done much better?
1765. **Mr Bunting:** I think that you overestimate my leverage. I may have been around for a long time, but I am not making any progress.
1766. **The Chairperson (Mr McGlone):** I am sure that you see the weak points, Peter.
1767. **Mr Bunting:** I accept that there are a number of issues. You could say that government is too big. We could work in a tighter frame. However, as you said, our investment has to be strategically placed. What are we going to do with it, and where are we going to put it? The blunderbuss approach is not going to yield what you think it is going to yield. There should be an innovation fund for small and medium-sized enterprises to cluster together, in which they get economies of scale, the sharing of market technology and skills, and savings from inhabiting the one building and whatever. It is about learning off each other. How could, for example, a small manufacturing plant, a marketing company, a PR company and whatever all work together? Somebody would engage an expert, because we all have to learn off each other. Some of our small, indigenous employers, which comprise about 97% of our economy, have a fear factor of growing in case it is going to cost them.
1768. It is not about regulations, reducing the minimum wage and having a race to the bottom. Richard Barnett, who was the vice chancellor of the Ulster University, launched an Invest Northern Ireland investigation about four or five years ago. He said that we competed with Bangladesh and we lost. So, the low-economy, low-skill and low-investment base lost. You will see that in the Ageas factory in west Belfast that is going to close on Friday. You can throw it in with the one up in Derry, which will close. We have to be on top of our game. Wrightbus is a perfect example. It is one where we have the export. It is done on quality. It is done also on the all-island economy; the money from Dublin Bus sets it up and gives you that steady employment. That allows it to invest and innovate. If you look at the buses that it is supplying to London, you will see that they are probably the most innovative buses in any city at the moment in Europe. Those are the things that we can do.
1769. Sometimes, I hesitate to link education with business. When you do degree or a master's degree, it is about the discipline to think as opposed to giving back to lecturers just what they want. I did economics and business in Trinity. At one stage, there were 240 middle-class kids behind me, and I was in a bus worker's uniform, doing the same degree full time. They all gave back what the lecturer wanted. I was probably the odd person out; I suppose that is why I am here today. It is about opposing and thinking differently. I suggest to you that business, third-level education and innovation places, which we are doing in Queen's and Ulster University, should not work in silos. Some of them are united

and working together with some of the universities on the island and across the water as well. Those are crucial.

1770. It is all about the labour market and upskilling it. That is the biggest attraction for any company coming here. One of the other big attractions now is the creative industries, with the films, ‘Game of Thrones’ and blah, blah, blah — I do not mean “blah, blah, blah” in a derogatory way; I mean etc, etc. I should have said that, in case somebody pulls me up. However, we could do with specific faculties of creative industries. Everybody in Northern Ireland — middle-class, working-class and even some kids — wants to become a lawyer, an accountant, a doctor or a dentist. When you walk around Belfast city, you see that every second building is a solicitor’s office or an accountant’s office. However, we need to move into the innovative industries and utilise them. What is happening at the moment because of the cuts? The Belfast MAC is closing down and moving out to Bangor somewhere. You saw Dan Gordon on the television. Those are industries that we can grow and have something of added value in Northern Ireland.

1771. **The Chairperson (Mr McGlone):** I have two final questions. We have all those restraints that we talked about, including the cuts and those awful things that are coming our way and that already have impacted. How do you see the Executive and all their offshoots — the public agencies — integrating much better to drive forward change for economic development, particularly in the context of a reduced taxation environment, which is what our inquiry is about? Secondly, and this is the bit that is important specifically for you, how can they do that, and how can the trade union movement work to be another important lever for better integration and better economic development?

1772. **Mr Bunting:** One of the most important elements that we are missing from that planning and strategic way is something like a national council on social and economic development. I do not mean something with casts of

thousands, because we have tried casts of thousands. We had the Civic Forum with casts of thousands. That failed because there was a cast of thousands, one assumes. OFMDFM had a group. By the way, we did away with the Economic Development Forum, which we should never have done away with. What was the other thing that we had that Peter and Martin ran at one stage? Anyway, there was a cast of thousands, and we all came in. There were hundreds of people all talking. We should set it down very specifically and bring in elements of the trade unions. Workers do not leave their brains at home when they go to work.

1773. One of the most successful companies in the world was Honda. When Honda started up post-World War II, he started up in Japan on the remnants of second-hand World War II bikes, and he gave 25 yards — probably metres now or whatever it is — of spare space to every employee on the line so that they could be innovative and creative. That is why it became successful. It is about getting away from this command-type structure; people have to be more participative and more innovative at work, along with the employer. I think that, at the moment, Northern Ireland is too adversarial. That is not just in politics but in everything that we do. We need to get away from that. If we are really talking about the benefits of everyone putting in something to grow Northern Ireland we need to be more progressive. I am as patriotic as anybody else here about growing the economy in Northern Ireland; it is not about being a Luddite. We need to raise taxes to give better services to pay for education, but everybody has to pay their fair share in that context. It is very seldom that you hear people from my profession saying that. It is not about getting into government to reduce costs here and there; it is about how we can build an equal society that is beneficial in productivity terms for everyone for educational purposes. At the moment, we are bartering off one another and killing young people’s aspirations and hopes.

1774. **The Chairperson (Mr McGlone):** I hear what you say. Can you bring to a

- conclusion your suggestion for a cross-cutting —
1775. **Mr Bunting:** It is for a national council on social and economic development that plans, strategises and advises where money should go. It would not do that on a party political basis or a locational or geographical basis. It is about how we can build up a labour market that is the biggest attraction that we have, as opposed to a reduction in corporation tax. It is about that labour market and those skills.
1776. **The Chairperson (Mr McGlone):** Thanks very much for that, Peter. Agus anois, Máirtín.
1777. **Mr Ó Muilleoir:** Go raibh maith agat, a Chathaoirligh. Peter, thank you. I am sure that you are glad to get a rest from talking — or maybe not. Thanks for falling for the charms of the Chair and coming in after all the talks. I think it is very useful to have this discussion and debate. Before that, Chair, I give my congratulations to Mr Kinahan. This is the first meeting that I have been to that he has been at since his election as MP for South Antrim. Well done.
1778. **Mr Kinahan:** Thanks very much.
1779. **Mr Bunting:** I share that as well, Mr Kinahan.
1780. **Mr Ó Muilleoir:** Of course.
1781. Peter, a few yards away from where we are sitting, they are debating the very future of the Stormont House Agreement. We maybe need to be careful what we wish for; we may lose everything today. We will see how that goes, and we travel in hope, of course. You have gone on to wider issues, so talk to me about this assault by the Tory/Lib Dem coalition as it was but now by a Tory Government on our budgets. We are told to pencil 8 July into our diaries, which is when Mr Osborne will come forward with what his side is calling “eye-watering” cuts. What is your advice to those of us who say that continuing to run government here will become unsustainable if we are forced to endure this blitz on our budgets? You
- have looked at the future and are trying to imagine what the economy would be like with or without corporation tax: how do you see the next few months unfolding? I am giving you a platform here. What is your advice to those of us who have to deal with this assault and say that things are perhaps becoming unsustainable?
1782. **Mr Bunting:** I am very loath to give politicians advice.
1783. **Mr Ó Muilleoir:** You just have for half an hour. Go ahead; I am only joking.
1784. **Mr Bunting:** With the election of the Tory Government, Northern Ireland could well become an economic wasteland. The difficulty arises from their view of life that we need to take people off welfare etc. Let me suggest to anybody who is interested what the interesting thing about welfare is. The UK Government pay £170 billion in welfare. Thirty-eight per cent of that goes on pensions. The next highest part, 14%, goes on tax credits, which you have no responsibility for. The next major part, 11%, goes on housing benefit. Three per cent goes on jobseeker’s allowance. That has gone up by £40 billion in the last 20 years, by the way. Tax credits have risen by £25 billion in the last 20 years. That is primarily due to what? The explosion of low-pay, zero-hours contracts and people not being paid the proper rate to live on. There is the damage in the economy right away. That is why our big spend has gone up. The Tories have talked about another £12 billion, but we do not know whether they will ever touch pensions. Will they touch pensions, or are they afraid of the grey-haired brigade? They are the only people left to be touched.
1785. Eleven per cent goes on housing benefit. There have been the same number of claimants in the last 10 years. The number of claimants has increased by about 2,000, so there are around 5,000 or 7,000. However, £10 billion extra has been paid in the same period. Why is that? There has been no building of social housing, and private rental landlords have been pushing up the prices. I will send you a document that

has an analysis of where the money goes under welfare. It is not about a huge coterie of people who are all out there on Benefits Street or wherever robbing us, the workers. In 2013, two years ago, there were 60,000 on the unemployed register and a total of 5,000 jobs being advertised in Northern Ireland. Where were all the jobs that they were going to go to? If they all came off welfare and willingly surrendered it for the good of the nation, where would they go to get a job? You hear all these people on television talking about this, that and the other. It is absolute, utter nonsense. There is nowhere for the people to go. We have had an analysis of the welfare cost done by our economists. I will send you the papers. The continuum of the spend on total welfare benefits is a curve; it is not a spike. There has not been a spike in it; it has been a progressive curve. I will send that stuff to you at some stage when I get back to the office. Sorry, Máirtín.

1786. The other point was about it being unsustainable. We put a paper into the talks process about Northern Ireland. I do not agree, by the way, that Northern Ireland is a post-conflict society; it is a society emerging from conflict, but it is not there yet. It requires additional funding. I heard somebody on the wireless this morning saying that the Canary Wharf bomb cost the British Government £1 billion. To get back to Northern Ireland, I say that it is emerging from conflict because, as Paul Givan knows very well, I still deal with some elements from the dissident republican movement in the prison and the Prison Service.
1787. I also have to say to you that you should not listen to me saying that austerity does not work: you should listen instead to Paul Krugman, Nobel laureate on economics, speak against austerity. Austerity does not work. You should also listen to Joseph Stiglitz, another recipient of the Nobel award for economics. Those are the people who regularly say that austerity does not work. We are in a situation where we provide £700 million to put 20,000 civil servants out of work. By any economic ratio that you want to use, that will have a knock-on effect. Some economists use 0.3, which means that for every job that goes in the public sector, 0.3 of a job will go in the private sector. Some economists use 0.5. Take whatever ratio you want. If 20,000 jobs or 17,000 jobs go on the £700 million, you can be guaranteed that 6,000 will go in the private sector. Why is that? It is simple: you are sucking 20,000 disposable incomes every month out of our economy, and that will reflect as a negative spend on goods and services throughout Northern Ireland.
1788. In many ways, we are fighting for the retention of private-sector and public-sector jobs. Say you have a son or daughter who is not part of the brain drain going off to get work somewhere else. If they were in Northern Ireland and aspiring to get a job in the public sector, they would find that there would be none. There will be none for the next 20 years. Where do you get a job? That is even allowing for natural wastage through retirement etc. We are spending £700 million out of the £800 million of the reinvestment and reform initiative (RRI), which we could have utilised for creating and investing in jobs.
1789. We got no extra money out of the Stormont House Agreement. We got £500 million for T:BUC and for integrated and shared education, which is a good thing, and we got £150 million for the historical enquiry unit. That is all we got. We lost money. There is all this business of these fellas going around saying that we got £2 billion. I do not know who you are all trying to bluff. You did not get £2 billion. You are chancing your arm, the whole lot of you, in saying that you got £2 billion. I can prove that you did not get anywhere near £2 billion. That is the sad situation that we are talking about in Northern Ireland. I will send up the figures on that to you as well. Our economists say that you did not get anywhere near £2 billion. It is smoke and mirrors. You used the £700 million, which you are borrowing to get rid of people — 20,000 jobs — and you

- are adding the £650 million, and then you are getting another £350 million, but instead of the £800 million for borrowing, you are getting an extra £350 million to borrow, and we have lost the £800 million. Right? That is what you have done. And then you come out with, “But we got £250 million.” By the way, I have attacked all the parties in that — all the parties. It is nonsense. Anyway, I think it is unsustainable. You had better believe it. I will not be around, unfortunately. I hope that many of you will not be around looking for re-election, because five more years of Tory rule in Northern Ireland will decimate it.
1790. The last point I will make is this: we put in a paper to the talks. Let me suggest to you why Northern Ireland has a case. We called it a Troubles premium. We have the highest rate of poverty of all regions of the United Kingdom. We have the highest rate of mental health issues of all regions of the United Kingdom. We have the lowest rate of educational attainment of all regions in the United Kingdom. We have the lowest level of investment of all areas of the United Kingdom. There was one more, which I cannot recall. I have just been reminded that we have the highest security costs of all regions in the United Kingdom. That is why we need additional funding. That is why we need a Troubles premium. That is why we need to get out of the mess we are in. We are still only emerging from conflict. We are not there yet.
1791. The last point, which I will finish on, is that I have a strange worry that, despite the work that I do with all those ex-combatants and so forth, we will leave a huge cohort of young people with no hope, no aspiration and no jobs. You see them in the lower Shankill or in east Belfast. Where do they go? They go on a drugs run and get £300 from the local gangmaster, and other eejits are acting as recruiting sergeants. There is no hope, failure, low prospects and peer pressure. Where will they go? They will go to those dissidents and everybody else. That is where they are going. That is what we are creating. We are acting as a recruiting sergeant for dissidents all over the place in Northern Ireland, rather than attempting to build a positive society where everybody is equal and has an aspiration of getting a good job.
1792. **The Chairperson (Mr McGlone):** I think I share that theme with you. Máirtín, maybe that has answered some of your concerns.
1793. **Mr Ó Muilleoir:** No, it did not answer the only question I asked. Just help me with this, Peter. Some parties in here, without even naming them, are opposed to the implementation of the welfare cuts. Do you stand with those parties on that issue?
1794. **The Chairperson (Mr McGlone):** Wait a minute now. We are getting into an area. Máirtín, I am not opening a debate on welfare reform.
1795. **Mr Ó Muilleoir:** Fair enough, Chair, but let me ask it in a different way.
1796. **The Chairperson (Mr McGlone):** I will decide whether —
1797. **Mr Ó Muilleoir:** I do not want a 30-minute answer. Peter has brought it out, and we are looking at the future prospects of the economy. I am asking this: where will ICTU stand on 8 July if some parties and people here say that the next round of cuts is unacceptable?
1798. **The Chairperson (Mr McGlone):** That is a fair question. You answered it a good bit earlier, but go ahead, Peter.
1799. **Mr Ó Muilleoir:** Maybe we will let it go, Peter, because you are not going to answer it.
1800. **Mr Bunting:** I will answer it.
1801. **The Chairperson (Mr McGlone):** Can we make this answer pretty concise, as other members want to ask questions?
1802. **Mr Bunting:** I will be as concise as I can. ICTU has a policy of opposing austerity cuts wherever they fall, and it will oppose them. Where Máirtín’s problem is concerned, as I understand it, all the parties here say that, at some stage or other, they voted against austerity cuts, whether it was

- in Westminster or wherever they voted. That is all I am saying. ICTU will oppose austerity cuts, because we do not see them as the means of progressing our economy or the welfare and inclusivity of all the people.
1803. **Mr Ó Muilleoir:** Thank you, Peter.
1804. **Mr Dunne:** Thanks, Peter, for coming in. I feel, mind you, that you are out of step somewhat with so many, including the parties included here. The Executive and the all-party groups in the Executive have supported the devolution of corporation tax, so I feel, Peter, that you are going very much against the tide. We have had the CBI, Invest NI and many other people in here on corporation tax. In fact, Invest NI was in last week with a report. It has had a record performance, and I am sure that you recognise that and have no hesitation recognising it. At the top of its priorities on the way forward is agreeing a rate and a date for corporation tax. Surely that is what you should be supporting here today, rather than talking with the negativity that you put across, which I find most disappointing.
1805. The vast majority of people who come to the Committee come with a positive message about Northern Ireland, the good things that are happening, how people are investing, how businesses want to invest and how we want to move forward. Most people encourage us as politicians to move forward and to get agreement on the issues that, in many ways, hold us back. If it is not resolved today, I am sure you will agree that it will hold us back and will show this place as being unstable. It will certainly have negative effects on investment. Peter, you are out of step with what is happening, and you need to catch up.
1806. **Mr Bunting:** Could I reply to that, please?
1807. **The Chairperson (Mr McGlone):** Yes, you can respond, surely. I think Gordon invited comments from you.
1808. **Mr Bunting:** I respect your views, Gordon, but let me suggest to you that I do not mind being out of step with the business community. The business community at one stage said that the national minimum wage would put thousands or millions of people into unemployment. That never happened. Nobody was put into unemployment with the introduction of the national minimum wage. I also suggest to you that, when the chambers of commerce welcomed the Stormont House Agreement, people in that same business community went on to say that during the rest of the year they would look for the introduction of water charges, the elimination of free prescriptions, an increase in student fees and the elimination of whatever senior citizens get on public transport.
1809. **The Chairperson (Mr McGlone):** Bus passes.
1810. **Mr Bunting:** Look at the business page of the 'Irish News' on 6 January. These are the people who want to do all this. I have no problem with competing with their view of life. I do not think they are there to help anybody except themselves.
1811. **Mr Dunne:** Do you appreciate that it is not just them?
1812. **Mr Bunting:** I will come to that, but I will just say that I heard a very good quotation the other day that sums it up. It said that there is nothing as eloquent as a vested interest posturing or posing on a point of principle. I will just leave that with you as a thought.
1813. **Mr Dunne:** Right, a couple —
1814. **Mr Bunting:** Sorry, I just want to say one thing to you. I recognise the work of Invest NI, but I still differ. You have not identified my main problem, Gordon, which is that these people are all promising you thousands of jobs by 2035 — I will not be around by 2035 — and I suggest to you that, in the interim, they will take £400 million per year off the education budget, the health budget and public-sector delivery and will give that money to the rich people. Despite what they say, none of them can guarantee you that they will create one job, 10 jobs or 20 jobs. None of them can guarantee you that, because there is nothing to stop this — you have

- not answered my question or my theory that I can put the differential in my back pocket.
1815. **Mr Dunne:** Surely it would be regulated and controlled.
1816. **Mr Bunting:** It is not being regulated and controlled. I suggest that you read the Bill. Where are the sanctions? Where are the criteria? Where is the performance appraisal? It is always what the business community demands of its workers. Where is the performance rate that it wants? Nowhere. It is not in your Bill. It is a blunderbuss approach that people like me oppose. What you are saying, in effect — I assume many working-class people vote for you — is that it can come off the marginalised, whether from their welfare, health delivery, social housing or education. It can come out of there so that it can be given it to some rich fella who said to you, “Give it to me, Gordon, please. I will create a job”. Rubbish. It does not stand up.
1817. **Mr Dunne:** Just a couple of other things, Peter. You are one of the few who criticised research and development.
1818. **Mr Bunting:** No, I have not criticised it. I —
1819. **Mr Dunne:** You do not see it as a way forward, and yet, certainly in the last four years since I have been on the Committee, there has been a huge emphasis on it. It is in government, and it is a priority. It is in the Executive and is a priority. People see innovation as a way forward. You came back later talking about an innovation scheme for SMEs, and it is the case here that we have been fully supportive of that. Surely the whole drive on R&D is a way forward to innovate, come up with new ideas, make progress, design and bring things through to manufacture. Is that not the way through?
1820. **Mr Bunting:** Sorry, Gordon, I must have been very poor in delivering that. I actually praised research and development. I thought I stated that it is the best way of maintaining foreign direct investment in your country and that the best way to stop these fly-by-night companies that come in and leave is by them investing in research and development. Sorry, you must have got me wrong. I believe totally in the concept of research and development. I am sorry if I confused the message. I am with you on research and development fully, as well as on innovation. It is the only way ahead.
1821. **Mr Dunne:** This might be an easier question. The last point is that many organisations here complain about the amount of regulation that is imposed on businesses in Northern Ireland. Do you feel that there should be a drive, coming through from the Executive, towards deregulation for businesses in Northern Ireland to try to make life much easier and to try to attract more business here whether you want it or not?
1822. **Mr Bunting:** That is such a broad thrust — deregulation for businesses. That could mean anything. I am not so sure.
1823. **The Chairperson (Mr McGlone):** Maybe I should expand a wee bit on that.
1824. **Mr Bunting:** Planning was a problem. I appreciate that.
1825. **The Chairperson (Mr McGlone):** Yes, some of the stuff related to planning. Gordon, if you do not mind, I will just expand on this a wee bit.
1826. Some of what we heard in evidence said that, where regulations are concerned, people see them as coming from Europe and they seem to mean that, in one nation state they could be interpreted one way and in other nation states, they could be interpreted another. There was a broad-brush approach, if you like. Some of the evidence was having a bit of a whack or a poke at Europe, but in actual fact, as we explored it further, we found that Europe may have been the source of some of the regulation, but a bit of the problem was its interpretation by the Westminster Government. It was very broad, Peter, and I am sure that you will have your own concerns about workers’ rights and entitlements and so on, but, in a nutshell, that was where we were getting the evidence from.



1827. **Mr Bunting:** I am very pro-European, because I believe that, without Europe, we are all knackered. That is access to our market. If we do not have the European market — if we leave the European Union — we are finito, dead, dead as a duck. No American company and no other foreign direct company will invest here in Northern Ireland. However, the number one issue with David Cameron at the moment is not austerity; it is about whether we get out of Europe. I think that it is nonsense, but it will frighten off direct investors.
1828. I think that Gordon is right in that planning is a quagmire that makes it difficult for businesses to expand and grow. The other point I agree with is that a big problem for a number of our businesses in Northern Ireland is the black economy. The people who threaten legitimate, good businesses are those who operate in the black. We know, you know and I know that, because we are all from Northern Ireland. We can go to different parts, and we will know what is operating out there. We sat on a committee with the CBI that came out of the Economic Development Forum. It was attempting to stop oil — you know, the red diesel or whatever they use in cars. It was about all that sort of stuff. We need to stop the black economy, because I think that the messing around that goes on in the black economy is the biggest threat that we have to legitimate business expansion here in Northern Ireland. We need to stop it, and I think that it is hugely more detrimental to legitimate businesses than anything else of the regulatory type.
1829. I am all for the regulatory-type measures, such as the minimum wage and a living wage and stuff. The interesting thing about it all is that research done at one stage or another stated that, if you invest in the education of your workers and upskill them, it is worth a 50% increase in productivity, confidence and loyalty to your company. Ask how many companies are attempting to upskill their employees, because it is reckoned that around 75% of our current businesses and workforce will still be in situ in 2025. Think about what will happen between now and 2025. The whole place will evolve, not hugely but incrementally, in innovation, technology etc. If we are not up with that, we are finished. Employers and employees need to do that. I also think that we can do more here with employment rights to protect employees from exploitation by employers. It goes on. We see that problem, particularly with a number of the migrant companies and with some of our own people.
1830. Overall, deregulation it is too broad for me to comment on, other than to say that the black economy is the biggest problem that we need to deal with in the context of what happens here in Northern Ireland. That is the biggest threat to legitimate, good companies.
1831. **Mr Flanagan:** Peter, thanks for coming. We are glad to have you here. There is a danger that, in sitting around this table, we engage in groupthink. Too much of that goes on in institutions like this around the Western World, so it is good to hear differing opinions. You referenced Richard Murphy's report on a number of occasions. We heard from Richard shortly after his report came out, so we heard what he had to say. Once again, it was good to get a differing opinion and one that we do not often hear around this table. Do you support the transfer from London to Stormont of the power to set a rate of corporation tax?
1832. **Mr Bunting:** I am not sure about that — not the way that it is set because, first, it has to come out of the block grant. The other point is that, after you pay £400 million to transfer wealth to businesspeople, even if a certain number of jobs are created, the only beneficiary is the Treasury because it gets the PAYE, the PRSI and the reduction in benefits. Northern Ireland does not get that. I do not know whether you are angling for me to answer on whether I agree with the full restoration of fiscal powers to Northern Ireland, and I do not particularly want to comment on that now because ICTU does not have a policy on that. That is probably what you wanted me to answer on, was it?

1833. **Mr Flanagan:** No. If I had wanted to ask that, I would have. Do you think that, if a decision is taken to implement a lower rate of corporation tax here, and that creates new jobs, reduces welfare payments and brings all the things that everybody has promised us, should we, morally and ethically, get the secondary benefits? I suppose that, to answer that question, you need to accept the premise that it will create more jobs.
1834. **Mr Bunting:** Exactly.
1835. **Mr Flanagan:** That might cause you difficulty.
1836. **Mr Bunting:** Yes, you are pre-empting the view that it will create more jobs, and my view is that it will not. Therefore, I am loath to reply. If a lower rate came into being, I may not be here, so it would be up to you. The best of luck to you if you want to take a chance on that.
1837. **Mr Dunne:** After all, it will be 2035, will it not?
1838. **Mr Bunting:** I know, Gordon. I do not know about you — you might have greater longevity than me — but I certainly will not be around.
1839. **Mr McKinney:** He is only 25.
1840. **Mr Bunting:** I believe that, overall, it is detrimental to welfare. There is a net welfare loss to Northern Ireland, and I mean that in terms of society, not in terms of welfare packages. There are other ways: for example, if somebody could convince me that we will have the four crucial aspects: if “Kinahan Enterprises” or “Bunting Enterprises” were to invest the differential in research and development; if it would create additional exports, if it would upskill your workers; and if it would increase employment, I would say, “Fair play to you”. However, if the differential is not invested, end of story, and you do not get it the year after.
1841. Patsy mentioned Europe, which is a wonderful place. I always find that the United Kingdom is too strict on implementing and transposing directives. Go to the French or the Italians. When it comes to state aid for indigenous companies, that is no problem. It is illegal here, allegedly, but go to France and Italy and have a look around. Go to companies there and ask them how they get that. Their Government give them grants hand over fist. All over the place, companies are given European money, but you could not do that here. Why? I do not know whether it is an anti-European feeling, or whatever the view of life is, but think back to what I said to you about Wrightbus, which would never have benefited to the tune of £30 million had I not convinced the Minister for Transport in the Republic. He did not go through the blue book, the tender book and so on. Within three weeks, he was up here giving the contract to Wrightbus in Ballymena, and that was when a line was in danger of closing.
1842. Even Gordon’s view of me is that I am out of step, but I will do what I can do to boost business in Northern Ireland, irrespective of where it is and whose constituency it is in. I will do whatever I can. I suggest that as far as EU regulation is concerned, state aid and the all-island economy were rolled into his bailiwick. It was the right time and the right place.
1843. **Mr Flanagan:** I do not necessarily accept that your views are out of step. A considerable number of people do not agree with setting a low rate of corporation tax because they do not think that it is in the best interests of society. It is, therefore, perfectly valid for you to present that view on behalf of not only your members but those in the community who do not agree with it.
1844. You talk about stipulating that companies benefiting from a reduced rate of corporation tax reinvest savings, hire more staff, carry out research and development or maybe even pay staff more — heaven forbid. Are you confident that that would not happen without some form of stipulation? Do you not think that companies would do that voluntarily?

1845. **Mr Bunting:** It would not happen. I mentioned Thomas Piketty, whose book, 'Capital in the Twenty-first Century' was an 'Economist' book of the year. In his immense study, he suggested that corporations do not now reinvest their profits in developing innovation or creating new technologies and innovative products for the market, as they did in the past. They are holding on to their profits and investing them in stocks and shares. That is a very succinct précis of his tome. You need to develop your arguments. Look at Paul Krugman and Joseph Stiglitz, who are probably the most prominent economists in the world. That is what they are saying.
1846. America, by the way, did not get out of its recession through austerity. It was quantitative easing, which is a wonderful phrase, that did it at some stage. That is also a reflection on the UK economy, which, and this is the difference, was supposed to be doing well. It is a bit of a nonsense, in that the UK prints its own money, which it then owes itself. So, you need to be very careful about how all that is witched into and presented as UK growth. I think that Germany is still the major growth country in Europe.
1847. **Mr Flanagan:** Do you think that, in the last few years, wealth redistribution and income equality have got worse or better here? The trend identified in reports from Oxfam is that they are getting worse globally, but very little work has been done locally.
1848. **Mr Bunting:** Very little work has been done locally, but I refer you to the recent publication of the Methodist Church and a number of other churches in Scotland and Wales on the catastrophic impact of welfare reform there. In 2011-12, Trussell Trust food banks gave, I think, 128,000 people emergency food for three days. Last year, they fed 1,084,000. If that is the decent society that Mr Cameron is building for us all, I want to opt out. I want to be out of step with that type of society.
1849. The findings of the Methodist Church on what is happening to people in GB because of austerity are very significant. Homelessness and food banks have increased. More importantly, there are sanctions. If you are dyslexic, have changed address or are on drugs or alcohol, and they cannot contact you about a job interview on such and such a date, you can be sanctioned by foregoing your welfare benefits for five, eight or 10 weeks, which means that the people who need the money do not get it. You can read the report: there were 1.4 million sanctions in 2012, I think, and, in 2013-14, there were 10 million. Ten million benefit recipients were sanctioned and had to live for weeks without any money. If that is the good, caring society that we all want, the best of luck to us all.
1850. **Mr Flanagan:** My final question is about the Transatlantic Trade and Investment Partnership (TTIP). Do you think that it will have a positive or negative impact on our local economy?
1851. **Mr Bunting:** It is a disaster. Talk to the farmers about it.
1852. **Mr Flanagan:** Do you want to expand on that?
1853. **Mr Bunting:** The biggest problem with it is the investor-state dispute settlement (ISDS) section, whereby a group of lawyers, whether they be American or whatever, can come over and sue the state. They are suing the Peruvian state for something like \$10 billion because it nationalised a mine. It is the lawyers who have the say, not Governments. It will be detrimental in the end. Northern Ireland is a very small, open economy, a regional economy if anything, so, to a certain extent, we get the hind tit, if you will forgive the phrase, of what goes elsewhere. I cannot see TTIP being a success. That said, I was in Colombia recently with Jeffrey Donaldson and others. Our visit related to the peace difficulties there. They had an American-Colombian pact, which contained a lot of clauses that would give working people an opportunity and reduce the power of multinationals, but nothing has happened, even despite the American

- thrust. With the Americans and Europe, we are way out of our league.
1854. **Mr Flanagan:** Do you think that it will benefit American suppliers getting into here and Europe or will there be —
1855. **Mr Bunting:** It will certainly, particularly in beef and areas like that.
1856. **Mr Flanagan:** Will it be beneficial for any sectors of the economy here to try to get a foothold in the American economy?
1857. **Mr Bunting:** I do not think so.
1858. **Mr McKinney:** Thanks for coming in, Peter. Do not worry, I will not be too long.
1859. **Mr Bunting:** I have another meeting at 12.00 pm, guys.
1860. **Mr McKinney:** I will try to be brief. By your measurement, the output from lowering corporation tax — reinvestment and the employment of more people — is questionable. Surely there is another measurement: the number of new companies and new jobs that come in as a result.
1861. **Mr Bunting:** You could say yes, but that poses a number of questions to me. First, why are they not somewhere else currently?
1862. **Mr McKinney:** You are asking me — you tell me why you think that that is the case.
1863. **Mr Bunting:** I worry sometimes about people saying so definitively that this will create jobs. How come, for example, Wrightbus is not in the Republic of Ireland? How come Glen Dimplex and that other company down in Newry are not in the Republic of Ireland? Why are they not over the border, 10 miles away?
1864. **Mr McKinney:** Wrightbus employs the local population.
1865. **Mr Bunting:** Go round the border areas then. Why are they not there? I am just suggesting to you that, if it is a silver bullet — people say that it is not really a silver bullet — what do we need it for, particularly when it can damage the other side? What are the consequences of having it?
1866. **Mr McKinney:** Yes, but, with respect, you have not answered my question: whether or not we get the result, is it not right that another measurement of its success or otherwise will be the potential jobs that it will bring? It is not just about whether the money is reinvested. That is all that I ask you to accept.
1867. **Mr Bunting:** I could accept that, except for one thing: what is the cost of my acceptance?
1868. **Mr McKinney:** I find myself being asked the question. Obviously, that depends on how big the company is, the size of its profits and the number of jobs that it brings in. In any event, you accept the point that there is another measurement. Let us say that a company wants to employ 5,000 people making widgets for Bombardier. Let us face it: Bombardier has a £500 million supply chain and sources most of its widgets and everything else associated with the production of wings in America and has to ship them here. It is in Bombardier's interests, potentially, to have local people skilled up and trained so that it can provide jobs here and reduce the costs of the supply line. Anyway, I just need you to accept that there is another measurement.
1869. **Mr Bunting:** There is another measurement, but you are asking a question like, "Have you stopped beating the wife?"
1870. **Mr McKinney:** No.
1871. **Mr Bunting:** If I say yes, I was beating her; if I say no, I am still beating her. Do you know what I mean? That is the type of question that you are asking me.
1872. **Mr McKinney:** Peter, you said that your opposition is around whether the money will be used appropriately or used just to provide individual purchases for owners and not reinvested. What I am asking is whether you can accept, and you have, that another measurement is the number of jobs that could be provided by new companies.

1873. **The Chairperson (Mr McGlone):** Or new investment.
1874. **Mr Bunting:** I am saying that it could be a measurement, but what I suggest to you is that, if you are to do that, it has to be on the basis of a cost-benefit analysis.
1875. **Mr McKinney:** That is a different argument. I just need the measurement.
1876. **Mr Bunting:** Yes, but the interesting thing about it, Fearghal, is that it is not your money or my money; this is about the people in Northern Ireland who rely on welfare.
1877. **Mr McKinney:** That is why I want to get to the next point. You made the point earlier that we are being cast against each other, in that the corporation tax reduction comes off somewhere else. The other day, I heard the shocking figure that something like 400 life science degree places are being cut here, yet, we know, Gordon, exactly where the new jobs will come from — biomedicine, new research and so on. I will jump to the point: we have not agreed what the big problem is. As Patsy said, we think that corporation tax is not a silver bullet. It is an answer, but it is an answer to an undefined problem. What is the problem that has to be solved? I suggest that it is the need to transform the economy, as opposed to tinkering round the edges.
1878. **Mr Bunting:** You are saying that it is an answer, but the answer that you received is from vested interests. I gave you a quote earlier about that. Sir David Varney came out with a report that suggested something different. Our friend Murphy came out with a report that is totally different again. I suggest to you that you have received an answer that is plausible to you. I can understand why you would willingly accept it — good, bad or indifferent — because you would all hang on to it as something that we have created in Northern Ireland. The difficulty is that you will not have to forgo the costs of whether it fails or succeeds. I hope that it would succeed, but I cannot see it. It is not Peter Bunting saying that: I am relying on the views of people such as Richard Murphy and Sir David Varney, who was tasked, by the way, by the then Prime Minister to produce the report.
1879. **Mr McKinney:** The point that I am making, Peter, is that you are saying that you have a particular view on corporation tax. I suggest that the issues with training, life sciences and so on have to be solved elsewhere because they are part of a bigger problem. A reduction in corporation tax may have an impact on the potential spending in those areas, but we, as politicians, Ministers and the Executive, surely have to identify future issues in a more joined-up-government way. This might play against some of that, but it is not entirely contrary, because a reduction in corporation tax will, potentially, provide the opportunities. I am just saying that by coupling the two, it presents itself, on the face of it, as a zero-sum game. However, the problem is bigger and different and needs different answers. In fact, a reduction in corporation tax could be an answer or part of an answer, and resolving to invest in training would solve part of your problem.
1880. **Mr Bunting:** It could solve part of the problem, but I suggest that the first thing that anybody looks for is a skilled labour market. If you do not have a skilled labour market, you will not attract any investors. The other point that I still think that you have to get over by 2017 is whether we will be in Europe, because nobody will come here —
1881. **Mr McKinney:** That is a different problem.
1882. **Mr Bunting:** It is a different problem, but it has to be taken into consideration. The other point that I made is that there is a move in Europe — good, bad or indifferent — to converge corporation tax across Europe. Another point is that surely the first thing that we should do is ensure that we upskill the labour market properly. We then have a cadre of people who, by their very nature, are so well skilled that they will attract the foreign direct investment without costing

- deprived people their public-sector services.
1883. **Mr McKinney:** I want to ask one final question.
1884. **The Chairperson (Mr McGlone):** Sure. I am conscious of Peter's time, though, Fearghal.
1885. **Mr McKinney:** I know. If we had a national council for social and economic development or some such body, could it lift off the shelf a solid understanding of how our economy is performing?
1886. **Mr Bunting:** No. The biggest difficulty in Northern Ireland is that you cannot extrapolate from the Northern Ireland Statistics and Research Agency (NISRA) data the extent of the wealth in Northern Ireland and who has it. One of our big problems when we look at, for example, increasing domestic rates and having a cap of £400,000, is that we do not know about the greater wealth in Northern Ireland. We talk a lot about parity of esteem, but, unlike agencies in the rest of the United Kingdom, NISRA is not allowed to ask that question in Northern Ireland. It can be done in Scotland, England and Wales, but we cannot do it in Northern Ireland, so we have a huge problem raising additional money through valuation rather than the regional rate. I say that because we know the value of properties. The other point is that we had a system — I do not know whether it is ongoing — whereby there was no rate bill for vacant properties. All that did was allow speculators to leave properties lying until they increased in value and then sell them off rather than utilising and investing in them.
1887. We have a lot of problems in Northern Ireland, and we are not tackling them. Some might think that it is small fry in comparison with a reduction in corporation tax, but we could do so much more in Northern Ireland. I have been touting procurement around this place for donkey's years and, until recently, had got nowhere. I proposed using it as a tool to tackle long-term unemployment in different areas, to skill people through apprenticeships and to utilise public spend as a plus to tackle lots of the issues in constituencies. I have proposed another idea, which is not new. In Barcelona and Manchester, there is a bedroom tax of £1 per night from Monday to Thursday. That would not break anybody, particularly businesspeople, which is why I have proposed it for those days. The money would be pooled and put into the Visit Belfast centre, which would use it to subvent conferences etc in Northern Ireland and as a tool to attract and boost tourism. These are small things; they are not massive ideas. Retrofitting all public housing and public buildings is another idea. You could have 5,000 people retrofitting Dundonald House tomorrow. Initially, it would cost you money, but, in the long term, because it is retrofitting, it would save on light and heat and enable you to pay back the cost. We have lots of ideas, but who listens in the Northern Ireland Assembly?
1888. **The Chairperson (Mr McGlone):** On that point, Peter, I hope that we are listening. That is why we are really glad that you reconsidered and were able to be here.
1889. **Mr Flanagan:** May I make one very quick point to Peter? I raised your point about the £1 bedroom tax for people who come here for conferences with Tourism NI officials the last time that they were here. They are coming here after you, so I will ask them again to get their point of view. We listen to you the odd time.
1890. **The Chairperson (Mr McGlone):** I really appreciate your time. Thank you very much for coming along, Peter. I am sure that we will hear from you again.
1891. **Mr Bunting:** I am sure that you might have wanted to keep going, but I have to roll.
1892. **The Chairperson (Mr McGlone):** No, you are grand.
1893. **Mr Bunting:** If you want me back, I will come back for more —
1894. **Mr Dunne:** No doubt.
1895. **Mr Bunting:** — if you can put up with more from me.
1896. **The Chairperson (Mr McGlone):** Thank you.

## 9 June 2015

### Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)  
 Mr Steven Agnew  
 Ms Megan Fearon  
 Mr Paul Frew  
 Mr William Humphrey  
 Mr Fearghal McKinney

### Witnesses:

Dr James Gillan	<i>Northern Ireland</i>
Dr David Marshall	<i>Statistics and Research Agency</i>

1897. **The Chairperson (Mr McGlone):** With us today are Dr David Marshall, director of the Northern Ireland Statistics and Research Agency (NISRA), and Dr James Gillan, senior principal statistician at NISRA responsible for economic and labour market statistics. You are both very welcome; thanks very much for coming to the Committee. Would you care to make any opening remarks, taking us through your paper or extrapolating from your data what is relevant to us? We will then have a short question and answer session.

1898. **Dr David Marshall (Northern Ireland Statistics and Research Agency):** Thank you very much, Chairman. I will start, and then James will take over. Thank you for the opportunity to brief you today. We are here to discuss economic statistics, and I believe you will get a second helping of statistics on tourism later on. James and I will stay for that, and some colleagues sitting behind us will join us at that stage.

1899. I will just give you some background on NISRA. NISRA is the Northern Ireland Statistics and Research Agency. It is an agency within the Department of Finance and Personnel. It has responsibility for statistics and social research but also includes the General Register Office for Northern Ireland, which is responsible

for the registration of births, deaths and marriages. So, we have functions other than statistical ones.

1900. The functions of the agency primarily involve coordinating statistics and social research across the public sector; carrying out the 10-yearly population census, which you will all be aware of; and collecting and analysing official statistics for Northern Ireland as a whole, not only social, but economic. James will talk about that in a minute or two. Although we are based in the Department of Finance and Personnel, we have staff in various parts of the public sector. We produce statistics on crime, health etc as well. We run to a statutory code of practice, which is statutory in a Northern Ireland and a UK context. That context is derived from a European Union statutory framework for official statistics. That helps us to make sure that we produce statistics to certain standards. One key area, obviously, is economic and labour market statistics, so, at this point, I will hand over to James to take you through the paper.

1901. **Dr James Gillan (Northern Ireland Statistics and Research Agency):** I echo David's welcome for the invitation. One of the key aspects of the code of practice for official statistics is that we investigate and document users' needs. It is a really valuable opportunity for us to hear what politicians seek from economic statistics with a view to developing data to help meet their needs.

1902. I intend to very briefly summarise the paper and hand over to you for questions, because I understand that this is a fairly short session on the economic statistics. The main point that I would like to get across is the fact that NISRA already collects a very wide range of detailed economic and labour market statistics. That runs right

across the range from four quarterly measures of the output of the service sector, four quarterly measures of the output of the production sector, four quarterly measures of the output of the construction sector, and an overall measure of the overall performance of the economy — the composite economic index, which combines those with public-sector employee jobs.

1903. In addition, we have two key measures of the non-financial business sector's financial performance, which comes out at the end of the year. We have two measures of exports, both on the manufacturing and the services side, which come out annually, and we have individual surveys of the extent of research and development and innovation activity among businesses. In addition, we have the annual survey of wages and earnings, and hours worked and earnings. You will all be familiar with the monthly unemployment statistics that we put out, the quarterly and annual analysis of the labour force survey, and the quarterly and annual measure of employee jobs.

1904. Most of those surveys are carried out to meet our statutory obligations, whether national or the UK's international obligations, for example to provide information to Eurostat. They are regulated by the UK Statistics Authority, which is an independent body. One of the issues that the Committee was interested in was the quality of our economic statistics. The vast majority of the economic and labour market statistics were independently assessed by the UK Statistics Authority several years ago, and they have all been found fit for purpose in that they meet the conditions of the code of practice that David referred to and they have been badged as "national statistics", which is, effectively, a quality badge. The quality of what we produce reaches international best standards, as judged by an independent authority.

1905. There is always demand for more economic statistics and more detailed economic and labour market statistics, and we are, ultimately, in the business

of meeting user needs in as timely a fashion as possible and to as high a standard of quality as possible. We are very much in listening mode today. Against that, there is also a statutory obligation to minimise the burden on business. Most of the administrative sources from HMRC are not timely enough for us to use for timely economic statistical purposes, so we have to go out and do surveys of businesses. I am sure that you will have had people in front of you who say that they need less red tape from government. So, against that demand for ever more economic statistics, which we have to go to business to collect, we also have to try to minimise that burden and, every year, we publish a report on the compliance burden on businesses.

1906. We have an independent statistics advisory committee and, before we go out to collect any more statistics, we go in front of it and say, "We think that there is a demonstrated user need for this; we propose to carry out this survey; this is the likely additional burden on businesses, and we are doing x, y and z to minimise the burden. Are you content that we proceed to collect this?" So, it is about trying to achieve a balance between satisfying the demand for more statistics and minimising the burden on business. Most of that, hopefully, is in my paper. I will stop there and hand over to the Committee for questions.

1907. **The Chairperson (Mr McGlone):** Thanks very much indeed. Primarily, the reason you are here today is our ongoing inquiry. There are a couple of things that spring to mind. One of the key themes that was being developed and had been asked about, which you are probably aware of, was the requirement for subregional economic data that would provide us with a more informed level of how the economy is growing throughout the North, rather than just an overall picture. Have you given any consideration to that?

1908. The second issue has cropped up in two guises. One was in regard to the overall potential for the new environment with a reduced level of corporation tax and



the opportunities that that might open for FDI to gain access to the mainland European market. On the back of that, what about “Brexit”? What would happen if we did anything stupid, which is how I and many others would see it? Can you quantify the export market to the European mainland and to the eurozone south of the border? We will call it the border, but it might become different if they did something really silly on the referendum issue.

1909. **Dr Gillan:** I will take those questions one at a time. On the subregional aspect, we are better served than most other countries and regions of the UK in the quality of our employee jobs information. Throughout the UK, we do an annual measure of employee jobs through the business register employment survey. We publish information at the district council level about the number of employee jobs, whether they are male or female and whether they are full-time or part-time. That survey is done annually. Unlike the rest of the UK, every four years — it used to be every two years — we do a full census of all businesses in Northern Ireland. So, we have a gold standard every four years that measures the extent of jobs across Northern Ireland.
1910. **The Chairperson (Mr McGlone):** Every four years?
1911. **Dr Gillan:** A census is done every four years but, every year, we have a survey, which gives district council information as well. So, it is a sample every year, but samples have margin of error around them, so every four years we do a gold-standard one that gives us a full census.
1912. **The Chairperson (Mr McGlone):** I am a wee bit unclear; maybe I am not picking it up right. On the information that is provided by district council area — I have not seen it, so I am not privy to it — could you be a wee bit more descriptive as to the precise scale of that information and what it includes?
1913. **Dr Gillan:** Sure. It gives an account of the number of employee jobs — it

is jobs rather than persons, as one individual might have more than one job. It breaks jobs down by the industry sector in which a person works, whether it is manufacturing, wholesale or retail. We talk about a two-digit industry sector: it will go down to about 80 overall for Northern Ireland. It is not broken down to that level of detail annually, but we do provide it by broad industry sector for each district council each year. We also identify whether there are males or females in employment and whether those jobs are full-time or part-time. So, there are industry breakdowns available each year for each district council on an annual basis.

1914. **The Chairperson (Mr McGlone):** What other economic measures does it provide? Does it go as far as looking into childcare provision to support employment and other such measures? Does it get into that level of detail?
1915. **Dr Gillan:** We do not survey on that basis. In the economic statistics we would not collect that information.
1916. **Dr Marshall:** We do have a range of statistics across NISRA, including crime statistics, health statistics, social welfare statistics, house prices etc. We have a website that effectively allows users to get access to that information in one place. We do detailed analysis, which James talked about, at the Northern Ireland level and the local government level. That provides high-level economic statistics and some subregional statistics. We merge that all together in the Northern Ireland Neighbourhood Information Service, which some users rely on quite heavily to understand their local economy.
1917. **The Chairperson (Mr McGlone):** The reason why I ask is that this inquiry is partly about the levels of skills we have and will have in the future. The issue of skills has cropped up time and again. We know, both anecdotally and in a very real sense from our own families, that many young women — it is usually young women — with families are being forced to take economic choices to pull themselves out of the labour market

- to look after their kids because of the pressures of childcare costs. By virtue of the high cost and lack of provision of childcare, we are depriving the labour market of skilled people who are forced to make an economic decision to stay at home.
1918. **Dr Gillan:** We do not measure that directly. You will get some information from the labour force survey but, without investigating further, it is not a standard output.
1919. **The Chairperson (Mr McGlone):** I appreciate that.
1920. **Dr Gillan:** We are involved mainly in the survey of businesses, and we do not ask them for that information. I am not sure whether it is included in the labour force survey and, if it was, you would not get a very detailed breakdown below the Northern Ireland level.
1921. **The Chairperson (Mr McGlone):** I have called a number of businesses, as I do fairly frequently anyway, and that issue has cropped up with businesses that are trying to adapt and be more flexible to support a good, skilled workforce, many of whom are female. It is an issue that has cropped up. Anyway, thank you for your answer. We will move to other members.
1922. **Mr McKinney:** Thanks very much for your presentation. It is fairly comprehensive, but you alluded to what is missing from the economic picture in your opening remarks.
1923. **Dr Gillan:** There are a number of things in development. The way I tend to look at it is that we are quite good at doing individual surveys. We do our annual business surveys and quarterly output surveys to meet statutory obligations. There is nothing missing from the surveys, as required by those statutory obligations. All the countries and regions of the UK have to meet that minimum standard. We meet all those requirements. Some countries within the UK go beyond that, Scotland being an example. One of the things that they have is an integrated picture of what is happening in the economy. Instead of being very survey specific or sector specific, it looks at the interrelationships between the different parts of the economy. For example, in outputs, it looks at how much of it is purchasing and what are the ripple effects. For any economic decision, it will study the impact right throughout the economy. They are called input/output tables in shorthand.
1924. **Mr McKinney:** We do not have those.
1925. **Dr Gillan:** We have not published them. We are working on and developing them. We have the precursor to them, which are called supply-and-use tables. We have an expert user group meeting tomorrow, as it happens, when we will provide some preliminary results, just sense-checking — quality assurance. Later in the summer, we will publish the supply-and-use tables with a view to publishing the input/output tables toward the end of the year. That is a first for Northern Ireland.
1926. **Mr McKinney:** Sorry to interrupt. Will that be entirely consistent with what is happening in Scotland or part of the way there?
1927. **Dr Gillan:** We have fairly good working relationships with Scotland, so it should be very close to what Scotland has. There is more work to be done on producing multipliers. There are data gaps that we are working to fill, but Scotland has similar gaps.
1928. **Mr McKinney:** Can you point to any actions that Scotland or other regions have taken as a result of that more informative data?
1929. **Dr Gillan:** As the paper states, we did a feasibility study and asked people whether that was something they wanted and, if so, why. The main reason that people gave us was to measure GDP but also to measure the economic impact of policy decisions. If you have £100 million to spend, are you better spending that £100 million on tourism activities or on building the pharmaceutical industry for Northern Ireland? What is the return in jobs and in GVA? Do you want high-value-added jobs but not so

- many of them, or do you want less-high-value-added jobs but more of them? You get the multipliers that economists are fond of using.
1930. That is the main output that we get from it. We work hand in glove with the academics in the University of Ulster Centre for Economic Policy, so they are keen to get our results and feed them into their models. We work closely with the departmental economists, who are also looking for it, so we try to tailor it. It is a big undertaking. The Office for National Statistics has about 200 people doing economic accounts; we have three people, and they are only recently in place. You could spend your career doing this stuff. It is difficult enough to do.
1931. **Mr McKinney:** You are pointing in the direction of the value of that information in policy terms, and you are suggesting that Scotland has already made policy decisions around that information that it already has. Are there policy decisions that we are now in the process of making that would benefit from that information?
1932. **Dr Gillan:** You could make the point that the tools could be there. Whether somebody actually uses them to their full effect to make policy decisions is debatable, I suppose. You would have to ask Scotland that. What I have certainly seen is economic commentators and analysts using input/output tables and the multipliers to inform economic decision-making, so you can use it for more informed decisions.
1933. **Mr McKinney:** You have thrown out one example. Scotland has moved ahead reasonably swiftly around a lot of the pharmaceutical industries and has had a good return, but we have not. In fact, from a health perspective, we have rejected the opportunities that purchasing some of the more advanced drugs might give us, given our new relationship that could be established with pharma companies. I am just wondering to what extent the lack of that information is either holding us up or preventing proper decisions from being made.
1934. **Dr Gillan:** It would certainly help good decisions to be made. You are into the area of policy making there, which is not my particular expertise.
1935. **The Chairperson (Mr McGlone):** You just inform the policy makers.
1936. **Dr Gillan:** It is making the information available to make informed economic decisions.
1937. **Mr McKinney:** I have just one other point. Overall, we as a party get the sense that there is not enough economic research. The Northern Ireland Economic Research Centre (NIERC) has gone now. Would that be a valuable addition in terms of people focusing in on trends and other information maybe gleaned from your data?
1938. **Dr Gillan:** There are quite a few economic commentators out there. Is it the Economic Research Institute of Northern Ireland (ERINI)? I happened to be up yesterday at the Ulster University Centre for Economic Policy at the user consultation that is going on for the development of its new model. I think it has recently come onto the scene and is starting to publish its latest economic output. That is certainly taking up some of the space that ERINI used to occupy. I know that some of the private sector economic commentators are very active in the area.
1939. **Mr McKinney:** I said finally, because I do have a final one. Do we get a full picture of moneys that we pay to the Treasury and the Treasury pays back, etc? Is there a full picture emerging there of what we produce and how it relates through Treasury channels and back?
1940. **Dr Gillan:** You will be aware of the net fiscal balance report. It is not produced by the statistics agency, so I would not want to intrude on its domain by saying that. It is produced on similar lines to what is produced in Scotland. There are limitations. Some of the data necessarily has to be modelled, because the Treasury does not make it a point to

- produce regional economic statistics. There is a separate publication on it, but a lot of it is subject to modelling assumptions. In the absence of hard data on that, you have to use the modelled approach.
1941. **Dr Marshall:** We have worked with our colleagues in public expenditure division in DFP who do this net fiscal balance report, and we have provided them with as much statistical information as we hold to help them. Fundamentally, we do not have all of the data that they would want to produce the best possible statistics, but that is the best that can be done with the information that is available.
1942. **Mr McKinney:** What is the margin for error?
1943. **Dr Marshall:** You would have to ask them.
1944. **Mr McKinney:** It might come down to some substantial figures.
1945. **Mr Agnew:** Thank you, gentlemen, for the information so far. As has been said, you provide the information and it is what is done to it thereafter that will, to some extent, inform policy decision-making. Even when I did my A-level economics, we used to write essays on the problems with GDP as a measure of the economy. In your work, have you looked at any alternatives, or is your role to provide the statistics and for government to decide what to do with them? In your research, are you coming up with any alternatives to GDP for measurement?
1946. **Dr Gillan:** Yes, colleagues in NISRA have been doing quite a bit of work on the measure of national well-being, which goes beyond GDP.
1947. **Dr Marshall:** That is a fundamental point. Is GDP the best measure of the economic performance? Clearly, there are things that society could develop further without necessarily economic growth, and that is one particular view. Internationally, that has grown a bit. The UK Government have looked at this. We have included various well-being questions in some of our social surveys and published some information on the social statistics side to do with people's perception of how things are going for them as individuals. It turns out that, economically, Northern Ireland is not necessarily performing on GDP measures as well as some other parts of the United Kingdom, but, on well-being measures, it is. You will have seen in the newspapers that Fermanagh is the happiest place in the United Kingdom.
1948. **The Chairperson (Mr McGlone):** We had better tell Phil.
1949. **Mr Agnew:** Phil is an exception to the rule, perhaps.
1950. **Dr Marshall:** We are looking at other things to do with the green economy. We have some surveys around that, and we are working through those. What is the size of the green economy in Northern Ireland? That has not been published to date, but we hope to publish that. We are trying to work those sorts of areas through, including well-being and the green economy, over the next year or two, but there is still a significant demand for GDP and for economic performance using the standard approaches.
1951. **Mr Agnew:** You mentioned the green economy, but what is included in well-being? For example, presumably health is in there. Is the health of our environment — carbon outputs and things like that — measured as part of that?
1952. **Dr Marshall:** There is a range of indicators. We can come back to the Committee with a range of them. Those sorts of things, how people feel and the perception of their neighbourhood is in there, from memory. We can furnish the Committee with a list of the indicators.
1953. **The Chairperson (Mr McGlone):** That would be helpful.
1954. **Mr Agnew:** Dr Gillan, you mentioned maybe going beyond what you are required to produce. How much independence do you have to decide? OK, you have your core business of

- what you are required to do, but, if you are looking to go beyond that, is that internal decision-making? Do you have to discuss that with DFP? What is the level of independence between you and your sponsoring Department?
1955. **Dr Gillan:** We are a Next Steps agency, so we are arm's-length from the Department. Ultimately, our budgets are subject to the moneys that the Department gives us. In my paper, we were talking about filling data gaps. That is subject to funding from the Department. The way that we approach it is that, ultimately, we are driven by user needs. We run regular user groups with the academics and some of the business community with our Statistics Advisory Committee. We are trying to glean what it is that they think is most important. We know that we will not meet all user needs, so our obligation is to investigate and document them, and then to transparently set priorities for what our objectives are. That is in the NISRA business plan. So it is looking at it in the round and at what our national UK obligations are. It is looking at what our users tell us they think is most important. Then, within all that, we have a set budget which is not likely to increase, so we are trying to prioritise and do things as efficiently as possible. We are trying, by osmosis, to kind of —
1956. **Mr Agnew:** So the Department certainly does not try to set your priorities, but it sets your budget. If you are looking to go into a new area of data collection or whatever it might be, do you put in a bid for additional moneys to fund that? I am just trying to work out, I suppose, who pulls the strings.
1957. **Dr Gillan:** As I understand it, we put together our corporate plan and our business plan for the next three-year period. That is ultimately signed off by a Minister. It gets approval for that. If there are individual initiatives, we will bid like any other part of the Civil Service. For some of the initiatives that we are looking to do, like this purchases inquiry which gives us the supply chain within Northern Ireland, or to boost the living costs and food survey, which helps ultimately to measure consumer expenditure, if we want to boost the sample sizes of those, it is ultimately subject to DFP supply. Is the business case that we put forward value for money for Northern Ireland? Is it value for money to have the work done? That is assessed by economists in DFP. Like everybody else, we are subject to those constraints.
1958. **Mr Humphrey:** Good morning. How independent of government is NISRA?
1959. **Dr Marshall:** We are a Next Steps agency within government. The chief executive of NISRA is a senior civil servant in the Department of Finance, so we are not an independent organisation; we work within the Civil Service. The rules and procedures that we use are, by and large, Civil Service procedures. That said, and I mentioned this at the start, there is a code of practice. The code of practice is a statutory code brought under 2007 legislation. It allows us, effectively, in certain aspects of what we do — specifically those around official and national statistics — to operate outside a political framework. Granted, the funding control is still retained within the political domain, but we are responsible for how the statistics are produced. That is seen as the good practice part of the code.
1960. **Mr Humphrey:** You mentioned being outside the political framework, and that is the point that I wanted to get at. You are not politically interfered with, and the statistics and information are produced independently by your organisation.
1961. **Dr Marshall:** Absolutely. It is seen like that, as well.
1962. **Mr Humphrey:** That is important.
1963. **Dr Gillan:** Dr Gillan, you mentioned minimising the burden on business — I think that that was the term you used. Can I ask what collaborative work has been done between your organisation and business organisations such as the CBI, the Chamber of Commerce, the Assembly Business Trust and so on in the history of your organisation?

1964. **Dr Gillan:** I mentioned that the Statistics Advisory Committee was set up under the Northern Ireland legislation. We are required to consult it on any new questions that we ask, or any additional burden that we place on business. At one of the recent meetings of the committee, at the beginning of April, we issued invitations to all the main business organisations, and we had attendance from the Northern Ireland Chamber of Commerce, Manufacturing Northern Ireland, and the Federation of Small Businesses. The invitations went more widely than that. At that meeting, we presented the uses to which the business statistics are put, such as the short-term measures of output, employee jobs, the annual performance of the business economy and exports. I think it would be fair to say that there was recognition that there is a burden on business; there is no doubt about that. However, businesses themselves would say that they found the information very useful in making their case to Government or to inform their own economic decision-making. There was a sense that it is almost a necessary evil. For us, the ultimate aim would be to get administrative data sources, such as those in HMRC, but that is not going to be a silver bullet that magically removes the burden on business, because by the time businesses make their VAT returns and so on the economy has moved on. We have difficulty getting the forms filled out in time sometimes. Better access to business administrative data would help reduce the burden on business, but there are always going to be business surveys, unfortunately.
1965. **Mr Humphrey:** The tabled paper that we have here talks about business, labour market, exports and an economic accounts project. Quite a lot of that is business-centred and whatever, which is good. I welcome that. More independent research around business in the economy is to be welcomed. At the start of his questions, Mr McKinney talked about what is missing: what is missing is agreement on welfare reform, and what will potentially be missing is agreement on a Budget for Northern Ireland. What work has been done by your organisation on the cost or the opportunity cost of the failure to agree on welfare reform or a Budget?
1966. **Dr Gillan:** I am not aware that we have done work in that area. Perhaps it goes more into the economic impact analysis and the public sector finances, which, as I said, reside outside the statistics agency with our DFP colleagues. Our colleagues in the Department for Social Development have been very active in producing scenarios about the value of the options for welfare reform. That has helped inform decision-making, so they have brought together a lot of the —
1967. **Mr Humphrey:** With respect, it has helped inform decision-making for some people, but they have been criticised by others. I asked if you were independent, and you said you were. Do you not think, given welfare reform and the implications of it being agreed or not, that work should be done by your organisation on the cost or the implications of not agreeing on welfare reform?
1968. **The Chairperson (Mr McGlone):** I am conscious that, at this moment in time, doing that might stray from the realms of fact, which NISRA deals in, into the realms of potential issues. That might not be the sort of thing that NISRA normally deals in.
1969. **Dr Gillan:** That is a fair point, Chairman. I sometimes say, “We don’t really do the future. We kind of concentrate on the past”, but it is a valid question that Mr Humphrey asks in that there are options, and the economic impact of those options should be assessed in an objective and independent way. It would be for us to try to make available the information for researchers and economists to come to conclusions. Does that help?
1970. **Mr Humphrey:** Not really, but I appreciate you are constrained.
1971. **The Chairperson (Mr McGlone):** Gentlemen, thanks very much for your time on this.



Northern Ireland  
Assembly

Appendix 3

# Written Submissions





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# Written Submissions

Committee for Employment and Learning  
Committee for Agriculture and Rural Development  
Committee for the Environment  
Manufacturing Northern Ireland  
Department of Agriculture and Rural Development  
Dr Leslie Budd  
Quarry Products Association Northern Ireland  
Department for Employment and Learning  
Department for Regional Development  
Grow NI  
Campaign for the Economic Regeneration of the Former Visteon Site  
Department of Education  
Institute of Directors  
Mid Ulster District Council  
Road Haulage Association  
Belfast International Airport Ltd  
Dairy UK  
Enterprise Northern Ireland  
Lisburn and Castlereagh City Council  
Newry, Mourne and Down District Council  
Federation of Small Businesses  
Ulster University  
Fermanagh and Omagh District Council  
Confederation of British Industry  
Belfast City Council  
Mid and East Antrim Borough Council  
Northern Ireland Chamber of Commerce and Industry  
DETI/Invest NI/InterTradeIreland  
Irish Congress of Trade Unions  
Invest NI  
Northern Ireland Electricity  
Written submission from member of the public  
NISRA

# Committee for Employment and Learning Written Submission



**Committee for Employment and Learning**

Room 416  
Parliament Buildings

Tel: +44 (0)28 9052 1448  
cathie.white@niassembly.gov.uk

To: Jim McManus  
Clerk to the Committee for Enterprise, Trade and Investment

From: Cathie White  
Clerk to the Committee for Employment and Learning

Date: 28 January 2015

Subject: Inquiry into Economic Growth and Job Creation

Jim,

At its meeting today the Committee for Employment and Learning considered your correspondence regarding the Inquiry into Economic Growth and Job Creation and agreed to write to you advising that it would not be responding at this time but wishes to be kept up to date on its progress.

I should be grateful if you would bring this to the attention of your Committee.

Regards,



**Cathie White**  
Committee Clerk

# Committee for Agriculture and Rural Development Written Submission



## Committee for Agriculture and Rural Development

Room 244  
Parliament Buildings

Tel: +44 (0) 28 905 21475

From: Stella McArdle,  
To: Jim McManus  
Clerk, Committee for Enterprise, Trade and Investment  
Date: 30th January 2015  
Subject: Inquiry into Growing the Economy and Creating Jobs with Lower  
Corporation Tax

Thank you for your recent correspondence on the above named inquiry which was considered by the Committee for Agriculture and Rural Development at its meeting on 27th January 2015.

The Committee ask you to note that the Agri-Food sector is the single largest private sector employer in Northern Ireland. Indeed most of the produce from this sector is exported. The Sector also has very ambitious job growth targets and will have clear thought on the issue of corporation tax. As you are aware the issue of corporation tax is one of the key recommendations within Growing for Growth under its "Better Regulation" theme. An extract from Going For Growth is below:-

### **Taxation**

Corporation Tax: Reducing Corporation Tax to match the Republic of Ireland's 12.5% rate would help create 58,000 jobs in Northern Ireland, according to analysis produced by the Economic Advisory Group.

And

We support this objective, believing that it would remove an existing competitive disadvantage with our main competitor (Republic of Ireland) and create additional funds for reinvestment.

The Committee noted the list of the organisations that the Committee for Enterprise, Trade and Investment intends to take evidence off. It suggests that the list is widened to take account of the Agri-Food sector and that specific thought is given to the following non exclusive list of bodies :-

- Agri-food Strategy Board
- NI Food and Drink Association
- NI Meat Exporters Association
- Dairy Council NI.

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# Committee for the Environment Written Submission

Committee for the Environment

## **Response to the Committee for Enterprise, Trade and Investment Inquiry into the potential for economic growth and job creation following reduction in corporation tax in Northern Ireland**

### **Background**

The Committee for Enterprise, Trade and Investment has announced an inquiry focussing on how the two year period before the devolution of corporation tax can be used to maximise the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs. The key focus for the Committee will be on the other economic drivers Northern Ireland can influence and must have right in order to maximise its potential.

### **Terms of Reference**

The Inquiry will examine the current position in Northern Ireland as a whole as a region for investment, economic growth and job creation in the context of a reduced rate of corporation tax from 2017. It will consider the key determinants of investment currently in place both within Northern Ireland as a whole and sub-regionally. The Inquiry will identify areas for improvement and make recommendations on how these can be addressed in both the shortterm and long-term to maximise the potential of Northern Ireland as a region to attract inward investment, grow its economy and create jobs.

Specifically, the Inquiry will:

- Identify the key determinants of inward investment and economic growth which Northern Ireland must have in place in order to attract investment, grow the economy and create jobs;
- Identify the current gaps that exist in Northern Ireland in relation to the key determinants;
- Prioritise the areas for improvement to address the gaps in provision in relation to the key determinants; and
- Make recommendations for actions to be taken in order to address the prioritised gaps in provision.

The Committee for Enterprise Trade and Investment has sought responses by 12 March.

### **Draft response**

The Committee for the Environment has suggested that the following issues may be considered relevant to this inquiry:

1. **Planning policies and practices** in Northern Ireland should be appropriately directed towards the facilitation of inward investment, particularly in terms of responding in a timely manner to applications at every stage of the process. Planners must be properly resourced to provide both proactive and reactive services to prospective investors, so that any such investors can have reasonable certainty when, and if, their planning application is likely to be successful. Although the Committee is keen that inward investment should be facilitated where possible by DOE Planning Service, members believe that pre-application community consultation is also vital to ensure that economic considerations are not prioritised over environmental or social well-being. The Committee feels that a partnership approach from the outset will ensure the engagement of local communities and will ultimately result in a more successful – and perhaps speedier – outcome to planning applications.

2. **The quality of the environment** is also a key determinant for tourism-related inward investment. The Committee would support the preservation of areas of scenic beauty within Northern Ireland so that this resource can be maximised for tourism and other service industries which rely on landscapes unmarred by inappropriate development. This aspect may also be a key factor for companies who are considering relocating head office functions to Northern Ireland and who wish to offer their employees an environment with attractive leisure pursuits. These will be facilitated by clean rivers and pleasant open spaces, as well as attractive city and town centres which are not characterised by dilapidated buildings and empty retail units.
3. **Energy costs** play a significant role in attracting inward investment. Although these costs are largely determined by factors outside the remit of the Environment Committee, members are concerned that the element of energy costs which relates to the subsidisation of renewables should be minimised where possible. The Committee has just carried out an inquiry into wind energy and this issue was raised by many stakeholders. While the Committee is supportive of the Executive's Programme for Government targets in relation to renewable energy, members believe that these targets must be met as cost-effectively as possible to achieve lower energy prices for all consumers, not just investors.
4. **Innovation and recycling facilities** are elements which may also prove useful in preparing to attract inward investment. The Committee has seen modern waste facilities in Belgium and Germany where a wide range of waste is successfully recycled on-site without being exported, not only reducing disposal costs but also making a positive contribution to the circular economy.

The Committee is also supportive of innovative research such as that which is currently being carried out by Queen's University, Belfast, in collaboration with universities in other EU states. This type of research aims to refine rather than recycle waste, so that the intrinsic elements can be reused in alternative products. The Committee believes that this will result in eventual cost savings for manufacturing industry and thus prove attractive to inward investors.

## Manufacturing NI Written Submission

Committee on Enterprise Trade and Investment Inquiry

# Growing the Economy and Creating Jobs with Lower Corporation Tax



What's the ambition?

**"Europe must re-industrialize. The target is 20% of GDP".**

EU Director General for Enterprise and Industry, Daniel Calleja Crespo

Manufacturing currently represents an estimated 12.5% of GDP. Just think what achieving 20% would do for the local economy and for communities right across Northern Ireland!

But, this is only possible if we resolve the issue of competitiveness.



How do we get there?

The issue isn't one of demand, quality of innovation...

...the issue is the cost of doing business.

Richard Ramsay, Chief Economist, Ulster Bank



MNI's is open to work with the Assembly to...

Create the most competitive region in Europe in which to start, sustain and grow a manufacturing business, thus creating wealth and work.





## How do we get there? Headline actions



## 3 policy gaps...





Rates

What's Needed?

Investment is stalled whilst there remains long term uncertainty - industrial de-rating needs locked in legislation.



Rates

How are we going?

As a pre-accession relief, this is a positive point of difference. Certainty will see investment provided the promised savings from RPA are realised.





## Rates

### Actions Required?

- Industrial de-rating needs to be secured for the long term through legislation
- The 'rate in the pound' should not exceed current levels.
- Continuing policy of holding of district rate level
- Demonstrable economies of scale from RPA through reducing/holding local rate poundage.

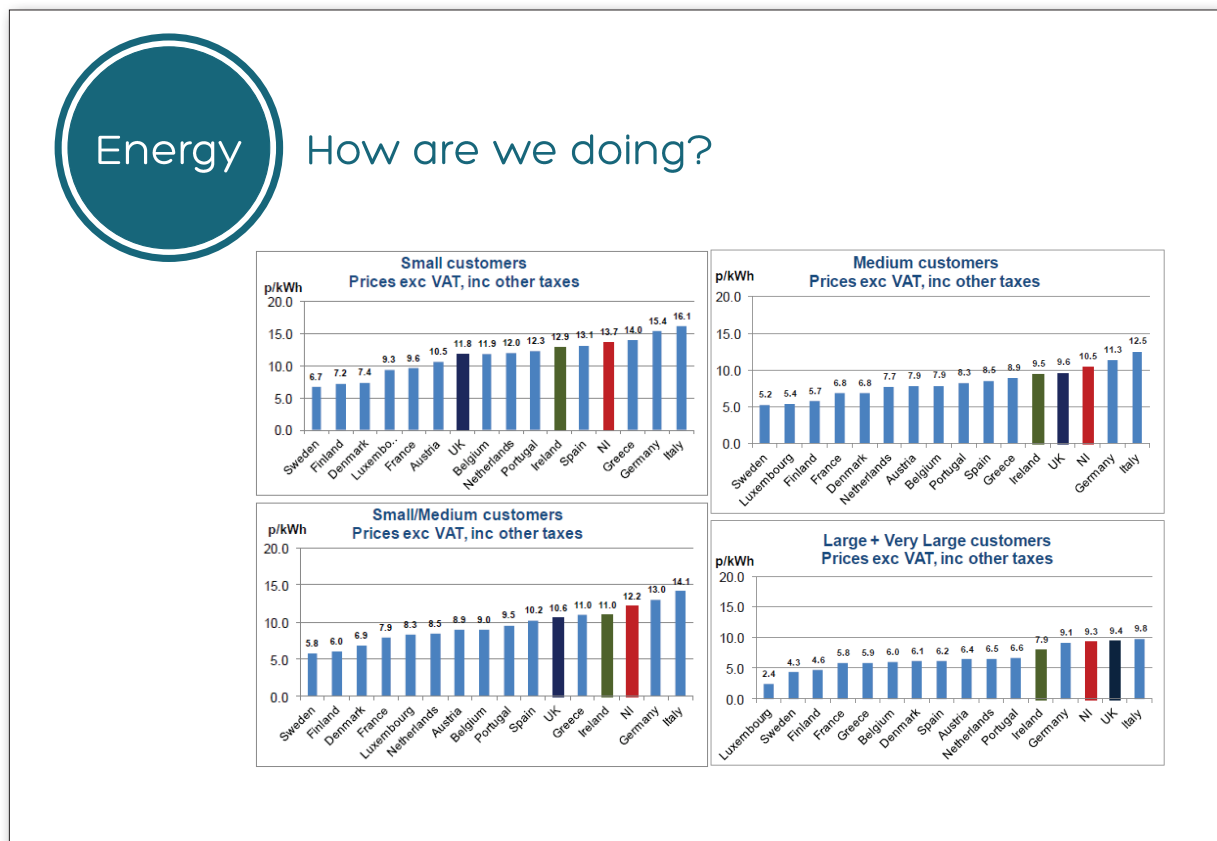
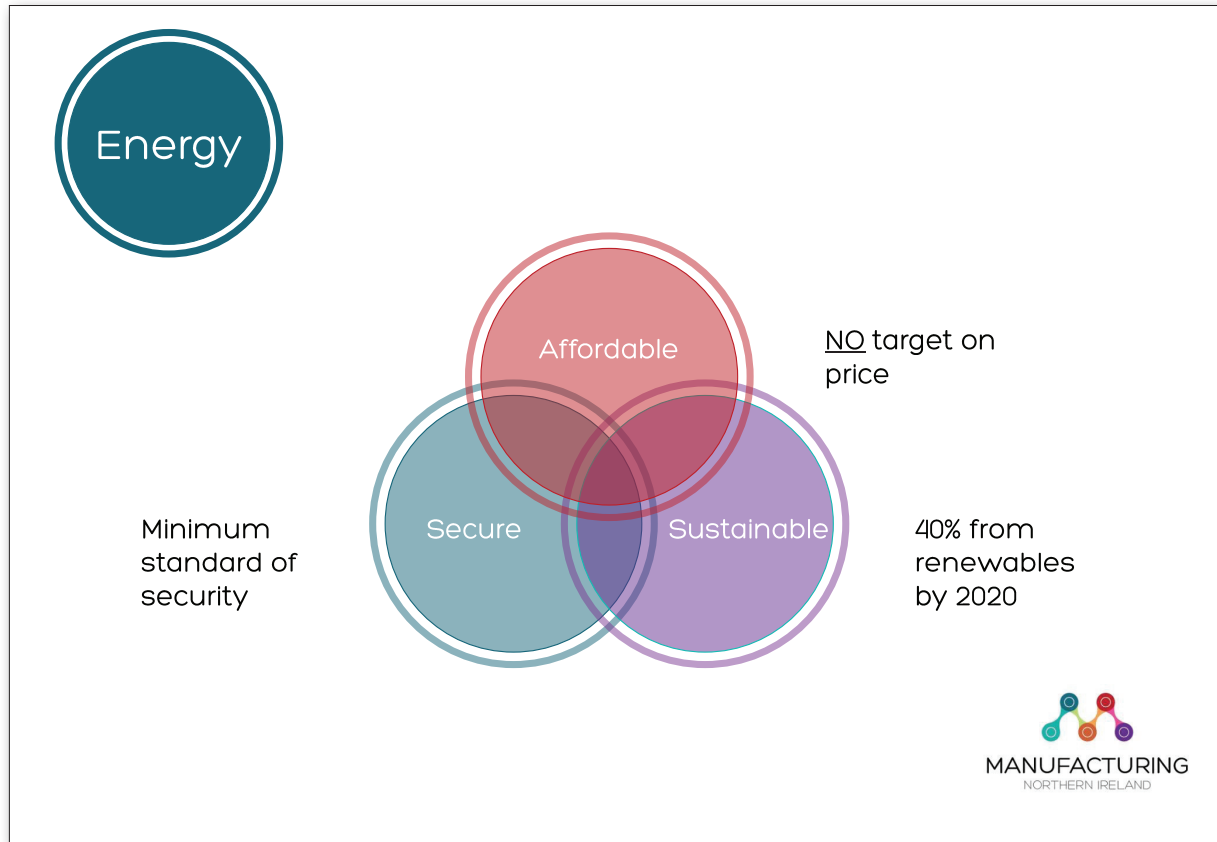


## Energy

### What's needed?

Energy prices, specifically electricity, which is competitive within Europe.







## Energy

## Actions required?

- Set a target on competitive price
- Get control of generator margins
- Drive efficiencies in how market operates
- Support demand reduction / AGUs
- Avoid unnecessary additional costs
- Break monopolies
- Allocate costs to support business



## Labour

## What's needed?

Greater investment in providing a skilled workforce - at all levels - and an employment law regime which encourages permanent jobs.





## How are we doing?

Ranked 45<sup>th</sup> (compared to GB ranking 5<sup>th</sup>) in labour market efficiency; jobs remain unfilled and labour imported; careers in manufacturing undervalued.



## Actions required?

- A fit for purpose employment law regime
- Greater availability of quality leadership, management, specialist training and apprenticeships.
- Closer working between education and business supported by an expert panel of employers
- An enhanced profile for apprenticeships.
- Funding should move to employers
- Prioritise and protect STEM apprenticeships.
- Investment in 3<sup>rd</sup> level study where manufacturers are based.





## What's needed?

The physical and enterprise support infrastructure which serves business effectively.



## How are we doing?

Delivery of strategically important infrastructure is too slow or not funded; Department 'gold-plating' whilst other regions are agile





Other

## Actions required?

- Agile ways to support in capital investment.
- 'Supercharge' thru enhanced capital allowances.
- Simplified and streamlined processes of applying for government support schemes.
- A start to the strategic road projects
- Efficient delivery of energy infrastructural
- Investigation into the costs of ferry travel.
- Single, capital projects delivery body.



MANUFACTURING  
NORTHERN IRELAND



Summary

### We will deliver:

- More wealth and work across Northern Ireland
- Modernised production facilities
- Greater contribution to GDP
- Sub-regional development
- Quality, well paid employment
- An investment in skills
- Capital Investment
- A reduction carbonised emission

### But we need:

- A cross cutting Manufacturing Strategy and a cost competitive environment
- A long term commitment on de-rating
- Competitive energy prices
- Improved infrastructure
- Facilitative employment law
- Investment in training at all levels
- More agile enterprise support
- Efficient utilities and an electricity market that works for customers



Reminder of our priority  
area and the 3 policy gaps...



Thank you!  
Questions?



MANUFACTURING  
NORTHERN IRELAND

# Department of Agriculture and Rural Development

## Written Submission

ETI Inquiry: Growing the Economy and Creating Jobs with Lower Corporation Tax – comments from the Department of Agriculture and Rural Development

The Department welcomes the opportunity to input to the ETI Committee inquiry on the potential for economic growth and job creation following a reduction in corporation tax in Northern Ireland.

The Committee will be aware of the work of the Agri-Food Strategy Board (AFSB) appointed by the DARD and DETI Ministers to develop a strategic action plan for the agri-food sector.

In May 2013, it published its report, *Going for Growth*<sup>1</sup>, in which it identified ambitious growth targets to 2020:

- Grow Sales by 60% to over £7bn
- Increase employment by 15% to 115,000 jobs
- Increase sales outside NI by 75% to £4.5bn
- Increase Value Added by 60% to £1bn

The AFSB identified seven themes which required action in order to deliver these growth targets in a sustainable way:

- Growing Market Share
- Working Together
- Sustainable Growth
- Innovation, Entrepreneurship and Skills
- Better Regulation
- Financing Growth
- Food Fortress

The Executive's Response to *Going for Growth*<sup>2</sup> details how the Executive will take forward agreed actions to address over 80 recommendations.

Key economic drivers detailed within these two documents include:

- Access to Markets – the AFSB saw a role for the Executive in assisting the opening of further global markets through building personal relationships with decision makers and addressing any barriers to export. This area also includes the development of a co-ordinated brand or identity for NI products, supported by a dedicated Agri-Food Marketing Organisation;
- Single Supply Chain – the AFSB considers that a change of mindset is required to build relationships within the sector and reinforce the message of a single supply chain. This requires trust, confidence and good communication across the supply chain. The AFSB sees a role for Government in terms of providing advice and guidance, opportunities for collaboration across the supply chain and enhanced support for those who participate in supply chain initiatives.
- Sustainability – The AFSB believes that NI agri-food must position itself in the global marketplace based on unique selling points. A clean, green image, twinned with world

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1 <http://www.agrifoodstrategyboard.org.uk/uploads/Going%20for%20Growth%20-%20Web%20Version.PDF>

2 [http://www.dardni.gov.uk/ni\\_executive\\_response\\_to\\_going\\_for\\_growth.pdf](http://www.dardni.gov.uk/ni_executive_response_to_going_for_growth.pdf)

leading sustainable production models will act as a point of differentiation when competing against other countries. Research must be commissioned on various issues such as genetics, economically viable production, and scientific baselines, e.g. on GHG emissions, etc. to inform future development of the industry and to provide it with the tools to grow. The AFSB has specifically called for the extension of the gas network into the west of Northern Ireland to be accelerated, and for a solution to the problem of poultry waste to be identified and progressed.

- **Innovation, Entrepreneurship & Skills** – The AFSB reports that whilst investment in R&D and innovation is widely recognised as a key mechanism to achieve greater economic growth, NI's R&D investment as a whole lags behind the top performers and our neighbours. The AFSB calls for closer collaboration in providing support for R&D and innovation, and clearer communication as to the support available. The Board supports the establishment of an industry-led Agri-Food Competence Centre, as has been developed for other sectors. The AFSB seeks the introduction of agri-food into the education curriculum, and a significant increase in the number of training places at all levels in agri-food, as well as implementation of the Agri-Food Future Skills Action Group (FSAG) Action Plan.
- **Better Regulation** – the AFSB seeks the development of an agreed regulatory environment which adds value, is proportionate, informed and has a riskbased approach to regulation. In line with its commitment to sustainability, regulation on a partnership approach should be pursued (e.g. NIEA Prosperity Agreements).
- **Access to Finance** – the AFSB recommended the devolution of powers to vary Corporation Tax. The AFSB also highlighted specific difficulties faced by the sector in accessing suitable finance to fund business plans and achieve growth. The Board sees a role for the Executive in terms of providing funding for a Farm Business Improvement Scheme, ensuring more effective use of agricultural land, and facilitating increased uptake of European funding.
- **Food Fortress** – the AFSB notes that the geographical position of NI presents a significant business opportunity that can be harnessed to underpin the local agri-food industry's reputation in terms of food safety and security and accelerate growth. The Board looks to Government to provide financial support to accelerate R&D in making NI a world leader in safe and healthy food production, and to assist the enhancement of traceability.

In addition to these priorities for action identified by the AFSB, the Department would offer the following comments.

Actions to stimulate growth and amplify the effects of reduced corporation tax should not focus entirely on the achievement of inward investment, although it is recognised that accelerated FDI will be critical in order to achieve the pace and scale of growth necessary to offset the effects of the reduction in the Block Grant and rebalance the economy. Indigenous firms and industries should also be encouraged to grow. The agri-food sector has demonstrated its ability to expand even during the most difficult of economic conditions. The work of the AFSB illustrates the ambition for further growth that exists within the sector.

If existing firms are to grow (or if additional FDI is to be secured), then exports will be critical given the limited size of the domestic market. Government has a key role to play in facilitating trade, in opening new markets and trade routes and in supporting the retention of existing markets.

Supply side conditions will, of course, have to be attractive. Investors will be looking for long term stability and commitment in the factors that are important to them, such as government investment in education and skills, R&D capacity and capability, digital connectivity, energy, transport and other infrastructure, etc. Human capital will be particularly important, which may suggest effectively aiming for an oversupply of workers with the necessary skills for the

main growth sectors so that there is a pool of talent both to attract FDI and to service it when it arrives.

A long term commitment to these supply side factors should be reflected and made explicit in future government spending plans – and especially where budgets are under pressure. Government priorities should be clear in order to ‘de-risk’ investment decisions as much as possible, and there should be a coherence across government in driving a growth agenda. Therefore, given this context, a longer term policy perspective is required rather than focusing on the period leading up to the devolution of corporation tax. Government should set a clear framework within which business will operate and have an open, transparent and rapid decision making process.

While government can seek to adopt a business friendly approach (e.g. through better regulation), it cannot ignore wider issues relating to the social and environmental consequences of economic activities. The AFSB has recognised that sustainability must form an integral part of any growth agenda if success is to be achieved.

Balanced growth across the region should also be a key objective. A key feature of the agri-food sector is that it operates in all areas of Northern Ireland. Great care must be taken to guard against the risk that cuts in public services and employment opportunities as a result of the reduction in the Block Grant are felt most acutely in less accessible areas of rural Northern Ireland, while the benefits of economic growth are concentrated in the Greater Belfast Area.

**Department of Agriculture and Rural Development**

February 2015

# Dr Leslie Budd Written Submission



## ***Economic Challenges and Opportunities of Devolved Corporate Taxation***

Briefing Note: CETI/OU, 1/15

February 2015

### Preamble

The Research and Information Service Briefing Paper *A Review of Literature Regarding the Determinants of Foreign Direct Investment (FDI)* (NIAR 862-14 by Daniel Donnelly) gives a fair summary and overview of the issues concerning the drivers of inward FDI and in particular the role of corporation tax. With the announcement of Northern Ireland being permitted to set a rate equivalent to that of the Republic of Ireland (ROI), there has been a renewed interest and focus on the role of cutting taxes on corporate activities in attracting FDI. This takes place against the background of particular global companies exploiting tax differences within the European Union. In particular, the ending of the “double Irish<sup>1</sup>” has created an over-emphasis on the role of corporate taxation in attracting FDI leading to increased economic growth and employment in the recipient country. Moreover, this has created a consensus that the attractiveness of the ROI for FDI inflows is solely a function of its rate of corporation tax. Like most discourses centred on a single consensus, a degree of complexity is hidden as the report published by the United Nations Conference on Trade and Development (UNCTAD)<sup>2</sup> notes:

*The role of incentives in promoting FDI has been the subject of many studies, but their relative advantages and disadvantages have never been clearly established.*

<sup>1</sup> The double Irish loophole allows US companies to reduce their tax bill far below Ireland's 12.5% corporate tax rate by shifting most of their taxable income from an operating company in Ireland to another Irish-registered firm in an offshore tax haven such as Bermuda. The ending of this loophole will be phased over a four year period.

<sup>2</sup> UNCTAD (2000) *Tax Incentives and Foreign Direct Investment: A Global Survey*, ASIT Advisory Studies No. 16, Geneva: UNCTAD. [http://unctad.org/en/Docs/iteipcmisc3\\_en.pdf](http://unctad.org/en/Docs/iteipcmisc3_en.pdf)

*There have been some spectacular successes as well as notable failures in their role as facilitators of FDI. As a factor in attracting FDI, incentives are secondary to more fundamental determinants, such as market size, access to raw materials and availability of skilled labour. Investors generally tend to adopt a two-stage process when evaluating countries as investment locations. In the first stage, they screen countries based on their fundamental determinants. Only those countries that pass these criteria go on to the next stage of evaluation where tax rates, grants and other incentives may become important. Thus, it is generally recognized that investment incentives have only moderate importance in attracting FDI. UNCTAD (2000, 11)*

In assessing the economic challenges and opportunities of devolved corporate taxation a number of issues arise:

- The new tax environment within which the Northern Ireland economy would operate will be different from hitherto so that multiplier effects and the tax elasticity of supply may be dissimilar than those currently estimated;
- Estimating the net impact on the fiscal position from tax changes and the reduction of corresponding amount of block grant and the transitional arrangements and their timing is uncertain;
- High profile European Union (EU) cases being brought against global companies for tax avoidance, accompanied by public pressure and campaigns, leading to greater pressures to harmonise corporation tax rates within the EU;
- The degree to which the Azores Judgment<sup>3</sup> would impinge on discretionary changes in corporation tax rates by being viewed as a form of state aid, balanced by pressures to re-negotiate associated regulations;

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<sup>3</sup> The Azores judgement reaffirmed the EU principle of that *the infra-State body not only has powers in the territory within its competence to adopt measures reducing the tax rate, regardless of any considerations related to the conduct of the central State, but that in addition it assumes the political and financial consequences of such a measure.* <http://www.reckon.co.uk/item/38dd5bd2>

- The possibility of a new constitutional settlement in the United Kingdom leading to more devolved fiscal powers may lead to greater tax competition between devolved nations and regions;
- By changing the effect exchange rate of business operating both sides of the border with the Republic, an All Island approach may give Northern Ireland access to a larger market and encourage more innovation hubs: both key drivers of FDI;
- Distinguish between investment/income and employment generating FDI as a result of cutting the rate of corporation tax. The former includes the MATRIX sectors whilst the latter includes financial services (particularly back-office functions) and other tradeable services.
- The locational stability of the different sectoral composition of FDI. For example, financial and business services are more globally mobile than aerospace and advanced engineering;
- Targeting the key MATRIX sectors may stimulate greater innovation and cluster development leading to increased productivity through process innovation;
- This targeted approach should be seen as part of a regional industrial policy in order to develop and sustain Global Value Chains (GVCs) that may stimulate investment and growth from FDI leading to employment effects and widening of the tax base, although these would be indirect;

Table 1 gives an overview of some of the effects arising from devolved corporate taxation. The shaded areas represent the current policy choices (rows 1b and 3) with highlighted text (row 3a) a future possibility. The degree to which other incentives and mechanisms will be introduced will depend upon the impact of changes in corporation tax. These may be positive and negative but at present the size and scale linkages between increased FDI investment growth and employment are uncertain.

**Table 1: Selected Fiscal Measures to Promote Investment and Technological Upgrading**

<b>Tax incentive &amp; mechanism</b>	<b>Objectives</b>	<b>Coverage</b>	<b>Advantages &amp; drawbacks (partly depend on objectives)</b>
1. Corporate tax instruments: <i>Reduced corporate tax rates (Not period – see tax holidays).</i>	To reduce effective tax rate (take) with waivers or reductions.	Broad coverage of profitable income-generating firms or targeted base of selected activities, sectors or firms. Does not apply to unprofitable firms.	<ul style="list-style-type: none"> <li>• Tax rate has to be below global norm 35-40% for full effect;</li> <li>• Lower tax rates confer benefits over a longer time;</li> <li>• Less immediate benefits to income-generating firms;</li> <li>• Reductions in corporate tax rates can reward old capital more.</li> </ul>
1a. Broad base: <i>Reduced corporate tax rate on all firms (e.g. Hong Kong)</i>	To minimise market distortions.	Broad firm base.	<ul style="list-style-type: none"> <li>• Simplified system; fewer market distortions.</li> <li>• Perceived to be fair – affects all firms in same way.</li> <li>• Confers LT benefits more slowly and rewards old capital.</li> </ul>
1b. Selective Approach: <i>Reduced corporate tax rates for selected activities and sectors. Operate through a waiver or exempt/reduced periods for corporate tax.</i>	To target beneficial industries and activities of perceived advantage. To provide support to firms in specific activities, especially new firms in their start-up phase. To encourage new investment	Specific targeted industries and activities; Existing firms and/or potential investors. Popular in developing countries with a discretionary approach. Can be used to target specific industries and activities, for existing firms and/or potential investors	<ul style="list-style-type: none"> <li>• Important signalling effects about government commitment and commitments to stimulate FDI;</li> <li>• Generally easier to implement than general reforms;</li> <li>• Results depend on sector choice; may distort the market</li> <li>• Discretionary approach; risks introducing market distortions.</li> <li>• Flexible, according to government objectives;</li> <li>• Immediate benefits to firms/start-ups as soon as earn income;</li> <li>• May reward founding business start-ups, rather than ongoing investments in existing companies; and LT investments;</li> <li>• Potential for tax planning across periods &amp; revenue leakage</li> <li>• May reward ST investments in 'footloose' industries.</li> </ul>
3. Investment tax allowances: • accelerated depreciation; • expenditure allowances; • tax credits.	To support expansion in existing firms; To encourage long-term investment.	Widely used in industrialized countries; cover firms making investments; Generally focus on specific sectors	<ul style="list-style-type: none"> <li>• Promote LT capital investments and current spending, causing less revenue leakage than tax holidays;</li> <li>• Promote new investment;</li> <li>• High inflation erodes value of annual depreciation allowances.</li> </ul>
3a. Refundable tax allowances: <i>Refunds from government at later date.</i>	As above	Firms making investments	<ul style="list-style-type: none"> <li>• With refundable write-off allowances, investment costs and risks can be shared by government with investors</li> <li>• Where non-refundable, existing companies reap benefits</li> <li>• Long term projects (e.g. infrastructure) suffer of rapid income-earners</li> </ul>
4. Exemptions on customs duties or local indirect taxes (e.g. EPZs)	To encourage export/import activities for TT	Generally for targeted sectors, activities, EPZs.	<ul style="list-style-type: none"> <li>• Use of customs exemptions has been restricted by trade treaties</li> <li>• Dependent on capacity of custom/tax administrations</li> </ul>
5. Outright grants and upfront subsidies; subsidized loans	To facilitate establishment of business & investment sectors.	Rarely used by DCs due to upfront costs; used for targeted sectors.	<ul style="list-style-type: none"> <li>• Flexible and can directly address objectives, but depend on capacity of tax administrations and may be open to abuse.</li> </ul>

Source Biggs (2007) (adapted from of Morisset & Pirnia, 2000)<sup>4</sup> <http://vi.unctad.org/fdiCD/sessions/Session3/Biggs.pdf>

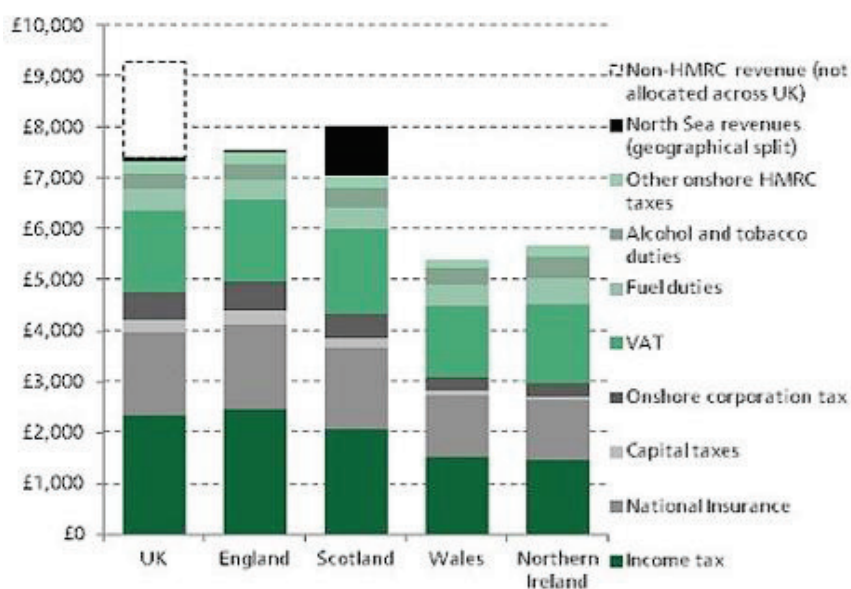
<sup>4</sup> Biggs, P., (2007) *Tax Incentives to Attract FDI Meeting of Experts on FDI, Technology and Competitiveness* UNCTAD; Geneva 8- 9 March



### Challenges for Devolved Corporate Taxation

Some of the challenges are implicit in the key issues set out above. The major challenge is the degree to which reductions in corporation tax can compensate for any reduction in the block grant. This takes place against the size of the contribution of different taxes to government revenues, shown per person across the nations of the UK in Figure 1 below.

**Figure 1: Government Revenue per person across the UK, 2012-13**



source: Institute of Fiscal Studies (2014)<sup>5</sup>

The other associated challenge is that the corporation tax base is relatively small in Northern Ireland because of the size distribution of firms:

1. Over three quarters of VAT and/or PAYE registered businesses with a main (or registered) address in Northern Ireland had total employment of less than five.
2. At March 2013, businesses with total employment of less than 50 accounted for approximately 98% of all VAT and/or PAYE registered businesses in Northern Ireland.
3. Businesses with 50-249 employees accounted for 1.5% of the total.

<sup>5</sup> <http://www.ifs.org.uk/publications/6881>

- 4. Businesses with 250+ total employment accounted for 0.3%.
- 5. Businesses with total employment of less than 10 accounted for 89.0% of the Northern Ireland total.

Similarly the total contribution of corporation tax to the UK Exchequer has been consistently small, peaking at 2.0% in 2005-07, then declining since, as shown in Table 2.

**Table 2: Corporate Tax (Onshore) receipts across UK (£m)**

	United Kingdom	England	%	Wales	%	Scotland	%	Northern Ireland	%
1999-00	33,054	29,187	88.3%	760	2.3%	2,578	7.8%	529	1.6%
2000-01	30,092	26,571	88.3%	692	2.3%	2,347	7.8%	481	1.6%
2001-02	28,526	25,188	88.3%	656	2.3%	2,225	7.8%	456	1.6%
2002-03	25,606	22,610	88.3%	589	2.3%	1,997	7.8%	410	1.6%
2003-04	25,020	22,043	88.1%	600	2.4%	1,927	7.7%	425	1.7%
2004-05	29,810	26,143	87.7%	715	2.4%	2,355	7.9%	566	1.9%
2005-06	34,522	30,276	87.7%	829	2.4%	2,762	8.0%	690	2.0%
2006-07	37,599	33,275	88.5%	865	2.3%	2,707	7.2%	752	2.0%
2007-08	40,655	36,020	88.6%	935	2.3%	2,927	7.2%	772	1.9%
2008-09	33,251	29,427	88.5%	765	2.3%	2,560	7.7%	499	1.5%
2009-10	30,807	27,295	88.6%	739	2.4%	2,403	7.8%	400	1.3%
2010-11	35,257	31,238	88.6%	846	2.4%	2,715	7.7%	458	1.3%
2011-12	33,311	29,514	88.6%	866	2.6%	2,498	7.5%	433	1.3%
2012-13	35,059	31,168	88.9%	876	2.5%	2,559	7.3%	421	1.2%
2013-14	35,718	31,753	88.9%	893	2.5%	2,607	7.3%	429	1.2%

source: HMRC (2014)<sup>6</sup>

The other significant challenge is what will be the actual FDI multipliers from tax reductions. For every 1% lowering in corporation tax, the increase in FDI will vary from 1% to 5% according to the OECD<sup>7</sup>. In some estimates the upper range is 6.7% but this was made prior to the financial crisis and the global economy's current under-performance.

One significant factor is what will be the net trade-off cost of the reduction of the tax rate to 12.5%. and the accompanying reduction in the block grant. H.M Treasury estimates that

<sup>6</sup> HMRC (2014) *A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland: Methodology Note*, HMRC; London. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/359890/disag-method.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359890/disag-method.pdf)

<sup>7</sup> OECD (2008) *Tax Effects on Foreign Direct Investment. Policy Brief*, OECD Observer: OECD; Paris. <http://www.oecd.org/investment/investment-policy/40152903.pdf>

cuts in the latter of between £300m (3.7%) and £700m (8.7%) per annum. Gerald Holtham<sup>8</sup> estimates that, even if the cut were just £300 million, then compensating for that loss would require an additional £2.4 billion in private-sector profits. This translates into an additional £10 billion of Gross Value Added (GVA) (current figure £28 billion).

It is apparent, however, that the introduction of a reduction in the rate of corporation tax to 12.5% is not just a binary function of the corresponding level of the block grant. This change in policy effectively is part of a new form of regional industrial policy aimed at transforming the Northern Ireland economy. This centres on the links between greater FDI leveraging investment; growth in output; and, subsequent rise in employment. This new environment forms the backcloth of the opportunities arising from corporate tax changes.

#### Opportunities arising from Devolved Corporation Tax

In 2011 the Economic Advisory Group (EAG)<sup>9</sup> in Northern Ireland produced a report setting out its estimates of economic benefits from a cut to a 12.5% rate. By 2030 this should produce:

- An increase in employment of is anticipated to be 58,000 higher by 2030, representing a 6.7% increase from the baseline;
- FDIs forecast to comprise 42% of the net additional jobs;
- GVA per head is forecast to be 13.5% higher than the baseline, implying convergence on living standards in the rest of the UK;
- Annual average annual GVA is forecast to be around one percentage point higher per year with the economy 13.8% larger by 2030;
- Labour productivity is forecast to be 6.6% higher than the baseline by 2030;
- Exporting activity (is forecast to be 34% higher than the baseline.

There is danger, however, of seeing reductions in corporation tax in order to stimulate inward

<sup>8</sup> Gerald Holtham was Chair of the *Independent Commission on Funding and Finance for Wales* whose work on devolved finance was completed in 2010.

<sup>9</sup> EAG (2011) *The impact of reducing corporation tax on the Northern Ireland economy* EAG; Belfast. <http://www.eagni.com/fs/doc/publications/impact-of-corporation-tax-on-ni-eag-report-final-report.pdf>

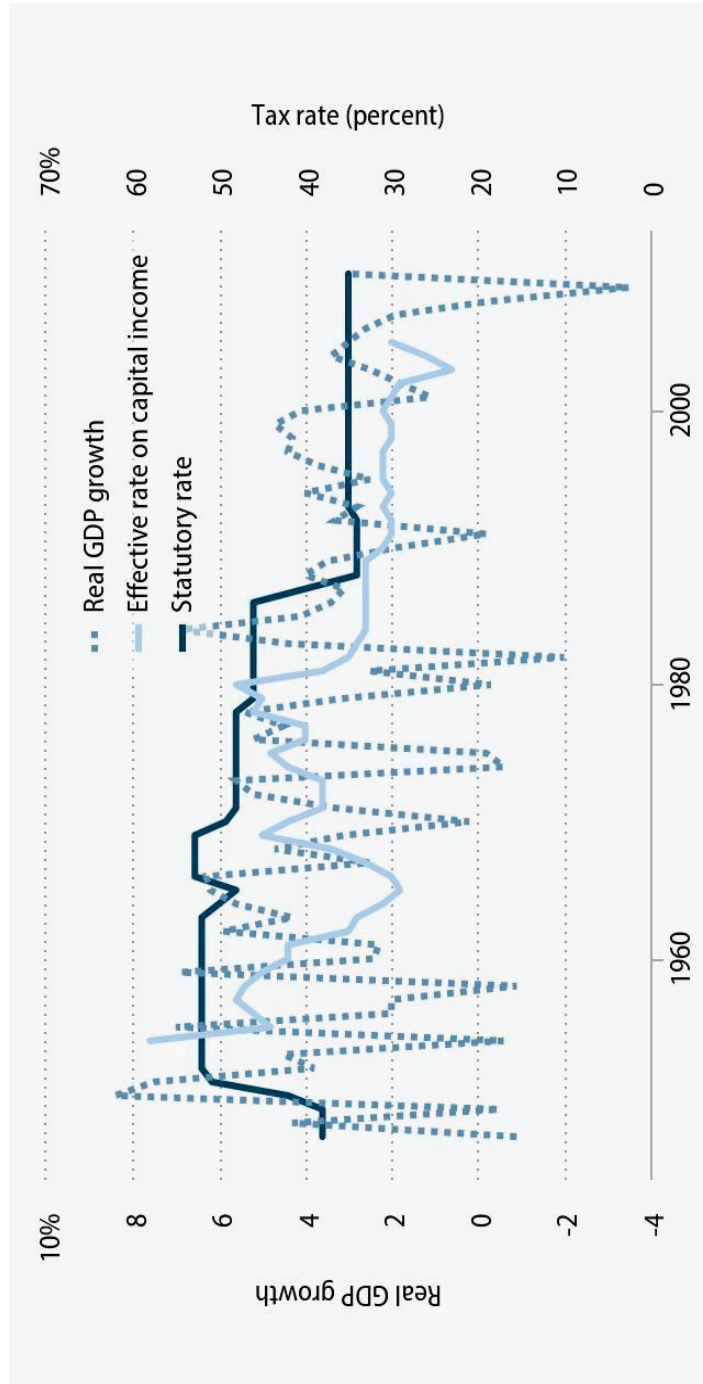
FDI as some kind of silver bullet. This has generated a consensus about the role of a low rate for corporation tax in the ROI being responsible for its dynamic, albeit volatile, growth performance. A challenge to this consensus is set out in Figure 2 below that shows the relationship between corporate taxes and GDP in the US between 1947 and 2010.

The focusing of tax changes, their mechanisms and incentives (for example those set out in Table 1 above) in key targeted sectors is crucial in embedding greater FDI in the economy. An important consideration in delivering economic benefits is the building upon existing and developing new Global Value Chains (GVCs). International production, trade and investments are increasingly organised within GVCs in which the different stages of the production process are located across different countries. Globalisation motivates companies to restructure their operations internationally through outsourcing and offshoring of activities through FDI. They do, however, also encourage re-shoring back to a home base as the dynamics of the global economy evolve. Firms try to optimise their production processes by locating the various stages across different sites. The past decades have witnessed a strong trend towards the international dispersion of value chain activities such as design, production, marketing, distribution and business services. This description equally applies directly to the MATRIX sectors of:

- Telecommunications & ICT;
- Life & Health Sciences
- Agrifood;
- Advanced Materials;
- Advanced Engineering

In the UK, 75% of Business Expenditure on Research and Development (BERD) is accounted for by manufacturing. Likewise, MATRIX type sectors are the source of significant demand for business services. Business services are both globally tradeable and form an important part of the economic framework of any economy. They also form important GVCs

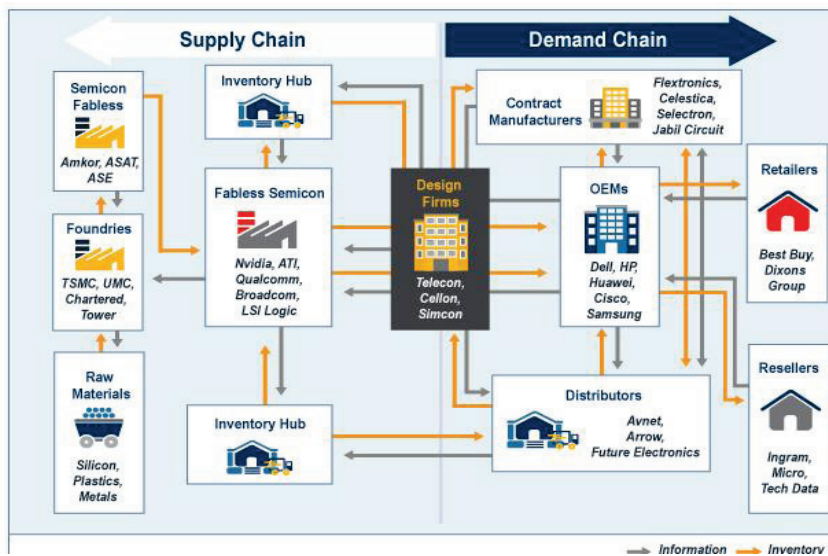
Figure 2: Economic growth rates and effective corporate tax rates in the United States



Source: Hungerford, T.L. (2013) "Corporate Tax Rates and Economic Growth since 1947", *Economic Policy Institute(EIP) Issue Brief no. 364*, June. EIP; Washington DC.

underpinning other GVCs in strategic sectors in an economy. A simple diagram of a GVC for hi-tech industry is set out in Figure 3 below:

**Figure 3: A Global Value Chain for the Hi-Tech Industry**



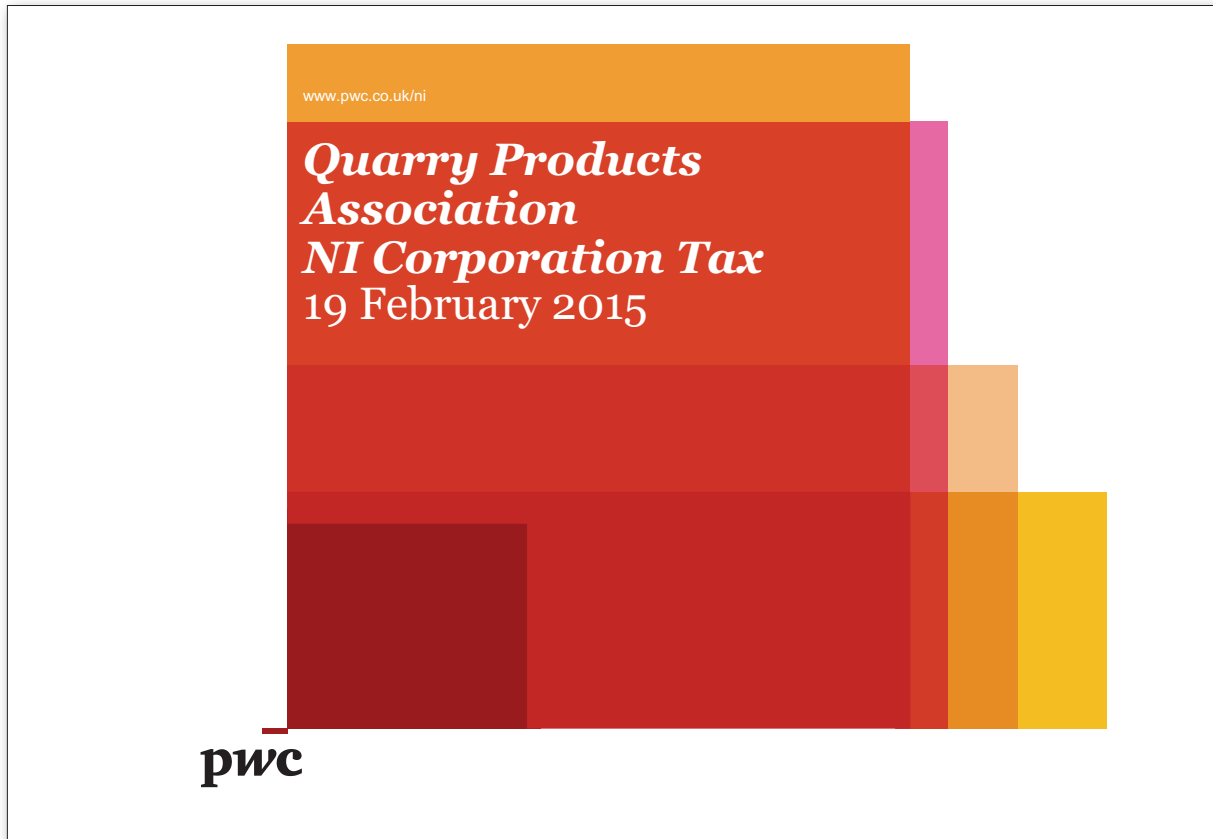
source: <http://www.edibasics.com/edi-by-industry/the-high-tech-industry/>

Thus, there are important forward and backward linkages between and across GVCs. But, perhaps just as importantly are spillovers into domestically-based activities. These include adoption of process innovation to increase productivity; skills development and formation; quality standards, as well as being a source of demand for new activities.

It is these kind of interactions with GVC formation associated with targeted MATRIX sectors that is likely to be the agency of linking cuts in corporation tax to increased FDI. The links between GVCs and associated clusters, especially business and financial services are also likely to increase investment, growth and employment. The consequently widening of the tax base should then ensue. Northern Ireland has been noted for its success in the reform of local government taxation. The important issue in respect of devolved corporate taxation is the transition arrangements and timing of these changes.

**Leslie Budd: February 2015**

# Quarry Products Association Northern Ireland Written Submission



## Agenda

*The landscape - setting the scene*  
• *Why cut CT anyway?*

**1**

*What are the benefits & costs?*

**2**

*How the system works*

**3**

*The Corporation Tax (N.I.) Bill*

**4**

*Definitions and eligibility*

**5**

*The devil is in the detail*

**6**

# 1

## The landscape – setting the scene

### ***Notwithstanding recovery: NI is bottom of the UK regional league table...***

<b>Economic indicator</b>	<b>NI</b>	<b>Wales</b>	<b>Scotland</b>	<b>SE England</b>
Output per head 2013	10 <sup>th</sup>	12 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>
Economic growth 2014	12 <sup>th</sup>	10 <sup>th</sup>	9 <sup>th</sup>	2 <sup>nd</sup>
Employment rate Feb.-Apr. 2014	12 <sup>th</sup>	9 <sup>th</sup>	5 <sup>th</sup>	1 <sup>st</sup>
Employment growth Mar. 2007-Mar. 2014	10 <sup>th</sup>	6 <sup>th</sup>	11 <sup>th</sup>	2 <sup>nd</sup>
Earnings levels 2013	12 <sup>th</sup>	10 <sup>th</sup>	4 <sup>th</sup>	2 <sup>nd</sup>



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***Why cut corporation tax anyway?***



*“...no financial weapon was more important than tax in attracting FDI”*

Ray MacSharry, Fianna Fáil Finance Minister in the 1987-88 Irish coalition government

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**2**

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What are the benefits – and the costs?

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### ***There are possible benefits...***

- Low profit tax boosts post-tax profitability and should increase investment .
- OECD (2007)- a 1% point reduction in tax rate associated with 4% higher FDI.
- 18<sup>th</sup> Global CEO Survey says tax increasingly important as location driver
- RoI experience is that low profits tax as part of wider incentives regime, attracts investment, encourages clustering & supply chains

---

### ***... but they are not always clear***

- RoI had a low rate from as early as mid 1950s, but growth in FDI only came in late 1980s. When rate was higher.
- So, any impact from lower rate may be:
  - A slow burn. (*But Oxford Economics 2011 assumed NI would fully adjust in 2 to 4 years.*)
  - Somewhat dependent on having other supply-side factors in place like skills, infrastructure, communications etc...(clustering)
- *“Economies are not like a Pot Noodle, just add water and ready!”*  
(Graham Brownlow, QUB).

---

## ***Projected employment impact is slipping.***

A range of studies over 9 years illustrate declining projected gain relative to “baseline” (*the UK’s average CT rate has declined and global conditions have changed*).

<b>Study</b>	<b>Employment gain by c. 2030</b>
ERINI, 2006	180,000
ERGNI/Oxf.Econ. 2010	90,000
EAG/Oxf.Econ. 2011	58,000
DETI/UUEPC 2014	37,400

# 3

---

How the system works

### ***Is cutting sub-regional CT not State-aid?***

- Potentially not, if it is done in compliance with the Azores Judgement
  - Decision must be taken in the sub-region with the constitutional status and the power to do so
  - Decision must be adopted without central government being able to intervene
  - Fiscal consequences of a reduction must be borne by the sub-region without subsidy, offset or compensation

### ***“Fiscal consequences must be borne by sub-region”***

- Estimate cost £300m p.a (David Gauke Financial Secretary to the Treasury. 27.01.2015)
- £300m- plus comes off the NI block grant every year.
- Some issues to be avoided that will boost cost
  - Behavioural changes(e.g. profit shifting,)
  - Tax-motivated incorporation
  - Brass plating
  - Impact on other UK regions that could motivate complaint to EU

# 4

## The Corporation Tax (N.I) Bill

### ***Corporation Tax (Northern Ireland) Bill***

The Secretary of State outlined the Government's "overarching principles", relating to corporation tax devolution, insofar as the devolution must:

- Encourage genuine economic activity in Northern Ireland
- Be attractive to businesses and ensure that any administrative burden is proportionate
- Satisfy EU State Aid rules.
- Ensure that the cost to the Northern Ireland Executive remains proportionate and a kept to a minimum

## Corporation Tax (Northern Ireland) Bill

- Published 8 January 2015 and first reading that day
- 21 & 22 January – HMRC Q&A sessions
- Second reading 27 January and referred to Committee that day
- Committee Stage ends by 12 February
- Must become law before 25 March
- No formal consultation process – written evidence deadline was 12 January!
- Must be “switched-on” by new government
- NI Assembly must make decision to vary the rate

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## Written evidence to support the Committee



Ian Hook Eng  
Senior Executive Officer  
Sunderland, 7 Millbank  
London SW1P 3SA

11 February 2015

Dear Sir,

Re: Corporation Tax (Northern Ireland) Bill

Please find attached our written evidence in respect of the Corporation Tax (Northern Ireland) Bill, which we hope will assist the Public Bill Committee in its deliberations on the technical issues included in Bill.

We note the comments of the Secretary of State for Northern Ireland in her presentation on 8 January where she outlined the Government's "overarching principle", relating to corporation tax devolution, insofar as the devolution must:

- Encourage genuine economic activity in Northern Ireland
- Be sensitive to business and ensure that any administrative burden is proportionate
- Satisfy EU State Aid rules
- Ensure that the cost to the Northern Ireland Executive remains proportionate and is kept to a minimum

In responding to your invitation to provide written evidence, we have sought to reflect these principles in our analysis and remarks. Consequently, the majority of our substantive comments seek to further simplify the regime and reduce unnecessary rules and compliance costs. Where we have made recommendations or proposed amendments to the Bill, these appear in bold and we will be happy to elaborate if required.

We note that the introduction of the new regime inevitably introduces a significant and unavoidable amount of complexity into the UK tax system for those affected and potentially affected. It will be important that the legislation is considered over a longer period and amended, as necessary, to ensure it operates in a simple manner as possible. Guidance and support from HMRC for taxpayers will also be of importance particularly during transitional periods.

Please do not hesitate to contact me should you or Members require additional information, as we would be happy to elaborate or to provide oral evidence if the Committee so wishes.

Yours faithfully,

Paul Torrington  
Northern Ireland Regional Chairman  
paul.torrington@qpaforum.com  
t: +44(0) 28 96 41 9228

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- Limited opportunity to respond
- Implications for Large cos, SMEs and workforce definition issues
- Issues around capital allowances and asset pools
- Implications for financial services – specifically long-term insurance and lending and investment

# 5

## Definitions and eligibility

### ***Northern Ireland Rate (NIR) – key points***

#### **The date and the rate**

- Rate to be set by NI Assembly –not yet determined – 12.5% or 10%?
- Commencement date of 1 April 2017 (at earliest)
- Will it be phased in (2.5% x3) or cliff-edge?

#### **Knowns**

- Non-trading profits completely excluded in all cases – even group income (eg property rental)
- ‘Qualifying’ trading profits only (ie there are exclusions)
- Got to be a “Northern Ireland company”

---

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- ‘Qualifying’ trading profits only (ie there are exclusions)
- Got to be a “Northern Ireland company”

**Place of incorporation – irrelevant!**

---

## ***Excluded trades***

1. Oil
2. Lending and investment
3. Investment management
4. Long term Insurance
5. Re-insurance

- But, exception to the exception in relation to “Back office functions” re 2, 3 and 5 above.
- Formulaic calculation of NI profit (for this purpose only) – tax deductible cost base plus 5% mark-up.



## ***“Northern Ireland company”***

1. Carries on “a qualifying trade” and
2. Meets either the “SME” or “Large company” test
  - SME
    - Is an SME (as defined by EU) in period, and
    - Meets the “NI Employer” rule (75% employee time and cost)
  - Large company
    - Not SME, and
    - Has a *Northern Ireland Regional Establishment* (“NIRE”)

## ***The SME Test***

### **SME - size**

- Must meet the EU definition (with some modifications) of SME in the period or the preceding period:
  - Less than 250 employees *and*
  - Either (i) Turnover less than €50m or (ii) Balance Sheet Gross Assets of less than €43m

### **NI Employer (The ‘In / Out’ test)**

- NI Employer rule must be met in period or preceding period:
  - 75% of workforce (Ds, Es, EPWs) UK time must be in NI, *and*
  - 75% of workforce costs incurred in UK must be in NI

---

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- NI Employer rule must be met in period or preceding period:
  - 75% of workforce (Ds, Es, EPWs) UK time must be in NI, *and*
  - 75% of workforce costs incurred in UK must be in NI

If you pass - **all qualifying trading profits are NI profits, taxed at NIr. If fail, all profits are 'main rate' profits taxed at UK rate.**

---

## ***Large company test***

### **Large company - size**

- Not SME

### **NIRE**

- Place of business in NI

---

## ***Large company test***

### **Large company - size**

- Not SME

### **NIRE**

- Place of business in NI

If you pass –must allocate trading profit between NI operations (Nir) and GB operations (UK rate)

Use Transfer Pricing / Branch Allocation principles. Concept of a 'separate enterprise'.



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The devil is in the detail

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## ***Northern Ireland losses***

Where company generates a trading loss and that loss or part of it is a Northern Ireland loss, the following applies:

- Can offset against other trading profits
- Can offset against total profits
- Can surrender as group relief
- But, value is restricted if offset against profits other than Northern Ireland profits
- So if main rate 20%, and NI rate 10%, a £1m NI loss will only be worth £500k if offset against main rate (non NI) profits.
- No adjustment in setting main rate losses against NI profits.

---

## ***Treatment of Intangible assets***

- Eg Goodwill, patents, brand income, licence/royalty fees/income
- Rules are complex – give rise to very surprising results!
- ‘Pre-commencement asset’ – intangible asset created by **anybody** before Commencement Date (ie the date the NIr begins).
- Receipts/expenses re pre-commencement assets – taxed (or relieved) at UK rate!
- For post-commencement assets –
  - SMEs: NIr on receipts/expenses, and ‘NI element’ on a realisation.
  - Large: NIr to the extent receipts/expenses are attributable to NIRE, and on ‘NI element’ on a realisation.

## ***Treatment of Intangible assets***

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  - SMEs: NIr on receipts/expenses, and ‘NI element’ on a realisation.
  - Large: NIr to the extent receipts/expenses are attributable to NIRE, and on ‘NI element’ on a realisation.

NI element? - ??????????????????

## ***Reliefs – adjustments made to neutralise impact***

### ***R&D***

- RDEC – will be taxable at main rate regardless
- R&D for SMEs – formula adjusted –  $A \times (MR/NIR)$
- R&D for SMEs – cash back (currently 14.5%) scaled back by formula.

Note- Similar adjustment for Contaminated land and Creative reliefs

### ***Patent Box***

- Formula adjusted in relation to NI profits.
- Patent Box can (broadly) only take tax rate down to 10%.
- Complex – particularly for NI/GB businesses and/or pre Commencement Date IP.

### ***CAs***

- Pools to be split between NI activity and GB activity

• AIA to be pro rated between NI and GB activity

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### ***Real life bear-traps & complexities...!***

- Some types of inter-group income
- Income from intangible assets
- Management charges
- SMEs - size, location of workforce and project pipeline
- SMEs – appropriate corporate structure
- Large – value drivers in your business
- Large – business model
- Property investment companies and management companies

---

### ***Some pertinent questions...!***

- Can I be in a break-even position and worse off under the NIr regime?
- I'm an SME – can I flip/flop in and out of the test?
- I'm an SME – can winning a contract in GB worsen my tax position?
  
- Can I restructure my company/group to improve my tax position?

### ***Some pertinent questions...!***

- Can I be in a break-even position and worse off under the NIr regime?
- I'm an SME – can I flip/flop in and out of the test?
- I'm an SME – can winning a contract in GB worsen my tax position?
  
- Can I restructure my company/group to improve my tax position?

**Yes, Yes, Yes, Yes, Yes!**

### ***Our observations so far...***

**1** *This Bill is firmly focused on attracting/rewarding FDI*

**2** *The “simple in/out” SME test is not as simple as it looks*

**3** *More generally, the NI CT regime test has pitfalls and complexities*

**4** *Full implications for indigenous businesses will emerge over the next few months*

**5** *and... HMRC are expecting businesses to prepare for the regime in advance*



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***Thank you, time for  
discussion...***

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# Department for Employment and Learning Written Submission



Department for  
**Employment  
and Learning**  
www.delni.gov.uk

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

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39/49 Adelaide Street  
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BT2 8FD  
Tel: 028 9025 7791  
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**Our Ref: COR/020/15**  
*26* February 2015

Dear Jim,

At their meeting on 20 January 2015, the Committee for Enterprise, Trade and Investment agreed to the terms of reference for the inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax. The Committee also agreed to write to the Department for Employment and Learning to seek their views on the key areas which the inquiry is focusing on.

Please see attached in the Annex the Department's considerations on these issues.

Yours sincerely,

**FIONA STANLEY**  
Departmental Assembly Liaison Officer



INVESTORS  
IN PEOPLE

people:skills:jobs:

1. *What are the key economic drivers (other than low 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?*

It is clear that a lower level of corporation tax will not be successful within a vacuum. We need to see continued, and indeed increased, investment in the other key economic drivers. This entails investment in research and innovation, investment in infrastructure, and most crucially investment in skills.

Such powers to lower the Corporation Tax rate in Northern Ireland has the potential to transform the local economy, in particular, increasing growth, productivity and exports.

From the list of drivers presented within the Appendix 1 of the Inquiry, the Department would consider the following to be key: Higher and Further Education; Innovation and R&D Environment; Labour Relations; and Skills and Education.

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

Advanced manufacturing and engineering was identified as one of a number of priority economic sectors vital to rebalancing the economy and providing economically relevant skills to the workforce and within this, Skills and Education are important drivers.

A Ministerial Working Group was established in 2012 to identify and address the skills challenges facing this sector. The Group is a short term intervention which brings together government, academia and local employers to identify skills needs specific to the sector.

The Group commissioned research to identify current and future skills issues across the industry. The findings of the research report were used to inform

the development of a two year Action Plan to set the strategic direction for the sector which launched in April 2014.

The Action Plan aims to help enhance the quality of the workforce, maximise employment opportunities and give the local Advanced Manufacturing and Engineering Services sector a competitive edge in the global marketplace. A number of key programmes have been put in place to promote the sector, increase its attractiveness and ensure employees and prospective employees have the right skills.

Alongside the lowering of corporation tax another factor driving demand in this sector is the growth in air travel and the core competencies which exist in Northern Ireland are creating expansion opportunities for the local aerospace industry. Additionally the growing demand for sustainable energy and environmentally-friendly products and processes will also affect the skill requirements of the advanced manufacturing and engineering workforce.

The Department has a strategy in place to address the skills issues of the engineering sector and is working in partnership with local employers and Academia to take this strategy forward.

*3. Which of these key economic drivers are considered priorities for the services sector?*

It is envisaged that under a lower Corporation Tax environment there will be a significant expansion in the requirement for software and IT professional and across the Business services sector more generally and therefore it is key that the appropriate skills pipeline is resourced appropriately to ensure needs of FDI employers are met.

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

Already much work has been conducted to develop our local skills base, in particular, the rebalancing towards higher level skills. However, Northern Ireland still suffers from a legacy of too many people with low or no skills and qualifications. This is unsustainable as we strive to create a strong economic future. We know that we have to deliver even more high level skills, in particular in the STEM subjects (Science, Technology, Engineering and Mathematics) if we are to be globally competitive.

Skills are already central to our inward investment narrative. The Northern Ireland colleges and universities are highly regarded internationally, and noted for their responsiveness to the needs of the local economy. The Department for Employment and Learning's Assured Skills Programme builds upon this solid base through offering tailored programmes to address the very specific requirements of investors, through for example an ever growing range of conversion Academies.

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

In the context of a lower rate of corporation tax, the demand for higher level skills will intensify further. In June 2012 DEL published a piece of research on the potential impact of a lower corporation tax on the demand for skills, entitled *Preparing for a Lower Corporation Tax Environment*. This was in order to more directly prepare for a new scenario.

The resulting research report<sup>1</sup> highlighted that a reduction in Northern Ireland's corporation tax rate to 12.5% could increase the jobs that would otherwise be produced locally. However, the research emphasised that a change in corporation tax may not transform the economy in isolation of

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<sup>1</sup> <http://www.delni.gov.uk/lower-corporation-tax-environment.pdf>

investment in and a coherent focus around the key economic drivers – particularly skills and employability.

The report sets out the importance of developing our skills base and the employability of our people. It highlights in particular the importance of strong skills in STEM; management and leadership; and literacy, numeracy and employability skills if we are to capture the full benefits of a lower corporation tax rate. Crucially, the report concludes that the Department must react quickly as it seeks to meet the skill needs of employers in a lower corporation tax rate environment.

The report indicates that under a lower corporation tax rate:

- increased demand would be most pronounced for employment in the software and IT sector;
- there would be a substantial increase in STEM professionals by 2030 compared with today;
- a significant increase in higher level skills is also estimated particularly in the areas of computer science, creative arts & design, managerial and professional roles and biological and physical sciences;
- the additional FDI jobs that a lower tax would attract may require strong management, leadership and professional skills; and
- a further drive may be required on up-skilling the low skilled to be 'work ready'.

These are issues that the Department for Employment and Learning is already working to address and they are central to its overarching 'Success through Skills – Transforming Futures' strategy. However, although the Department is already on the right path, what the research shows is that it will need to go even further to address the quantum of skills required under a low corporation tax rate scenario.

Therefore, we must ensure we keep pace with the supply of skills. That will require additional support from the Executive in terms of resourcing appropriately the skills pipeline in the right areas.

# Department for Regional Development

## Written Submission

### CENTRAL MANAGEMENT BRANCH



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**Regional  
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**Your reference:** DALO/D14/2015  
**Our reference:** SUB/132/2015

27 February 2015

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

Dear Jim,

#### **Inquiry - Economic Growth & Job Creation**

I am writing to you in response to your correspondence of 23 January 2015 in regard to the Committee for Enterprise, Trade and Investment's Inquiry to consider the potential for economic growth and job creation following a reduction in corporation tax in Northern Ireland.

Minister Kennedy considers that his Department has a key role to play in this regard. Therefore I have outlined below the Minister's response to the Committee's Inquiry, covering in turn each of the areas of consideration you outlined in your correspondence.

- 1. What are the key economic drivers (other than low 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?**
  - 1.1** To underpin economic growth, Northern Ireland needs a modern and sustainable economic infrastructure. The Regional Development Strategy is aimed at ensuring people can connect with a range of facilities and services and how they get to places of work. Businesses depend on efficient connections for goods and services including the necessary infrastructure to service economic growth. Wealth and value – added employment created by export driven economic growth will help achieve balanced regional growth and sustainable development and enhance equality.
  - 1.2** The Department for Regional Development (DRD) has been taking forward the 'Ensuring a Sustainable Transport Future: A New Approach to Regional Transportation' strategy. This strategy sets out that investment in the road network in Northern Ireland will be supported by significant investment in our bus and railway network, and walking and cycling facilities.

- 1.3 This will allow us to develop a much more integrated and sustainable transport infrastructure focused on meeting the needs of our businesses and communities while protecting our environment.
- 1.4 As part of implementing this Strategy DRD has created a Delivery Plan which stresses the value of further investment in public transport; namely its importance socially, economically and environmentally. When considering the key economic drivers (other than low 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 then there can be no doubt that Transport must be a key consideration.
- 1.5 As the Eddington Transport Study 2006<sup>1</sup> outlined *“Transport cannot of itself create growth: it is an enabler that can improve productivity when other conditions are right. Economic growth itself causes rising transport demands which, if left unchecked, can put the transport network under strain, damaging productivity and competitiveness.”*
- 1.6 Therefore while not an economic driver, transport is crucial to enabling other economic drivers such as access to markets, access to suppliers, lifestyle and living standards which you listed in Appendix 1 of your correspondence. To further put the importance of transport in perspective the American National Economic Council and the President’s Council of Economic Advisers stated that *“A high quality transportation network is vital to a top performing economy.”*<sup>2</sup> This was emphasised further in the UK’s National Infrastructure Plan 2013; *“the quality of a nation’s infrastructure is one of the foundations of its rate of growth and the living standards of its people. That is why the government has put long-term investment in roads, railways, energy, telecommunications and flood defences at the heart of its growth plan.”*<sup>3</sup>
- 2. Which of these key economic drivers are considered priorities for the manufacturing sector?**
- 2.1 Again in respect of the manufacturing sector it is important to consider this concept of transport as the ultimate enabler. The Executive’s focus on high value growth has particularly important implications for transport. Economic growth requires access to markets with the size of market area proportional to the value or specialisation of the goods and services produced. As such, growth in high value sectors requires access to larger extended markets in order to create the critical mass of consumers with the means and needs to avail of products and services. For a small region such as the Northern Ireland that means access to international markets, reflecting the findings of the Independent Review of Economic Policy commissioned by DETI, which concluded that it is vital that the economy continues to develop its connectivity to international growth hubs.<sup>4</sup>

<sup>1</sup> <http://www.thepep.org/ClearingHouse/docfiles/Eddington.Transport.Study%20-%20Rod.pdf>

<sup>2</sup> [http://www.whitehouse.gov/sites/default/files/docs/economic\\_analysis\\_of\\_transportation\\_investments.pdf](http://www.whitehouse.gov/sites/default/files/docs/economic_analysis_of_transportation_investments.pdf)

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263159/national\\_infrastructure\\_plan\\_2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263159/national_infrastructure_plan_2013.pdf)

<sup>4</sup> Barnett, Richard, *Independent Review of Economic Policy*, DETI, Belfast, September 2009, pp108



- 2.2** As outlined by CBI; *“Investment in transport - the backbone of UK industry - is essential to drive economic growth. Transport links are the backbone of the UK’s infrastructure “ecosystem”. We rely on our airports, railways and roads to move goods and people and to trade and export. So it is little surprise that 80% of our members tell us transport links are significant to their investment decisions. However, businesses are concerned about transport capacity issues – our 2011 infrastructure survey showed nearly half of respondents rate the UK’s transport networks as below average by international standards. UK competitiveness is undermined by a lack of capital investment in recent years (compared with our international competitors), congestion on our roads and the constraints on our aviation capacity.”*<sup>5</sup>
- 2.3** This is supported by a Foresight, Government Office for Science report which set out that another *“way to talk about the infrastructure problem is in terms of key stakeholders’ perceptions of the need for and quality of infrastructure. 568 senior executives from businesses of all sizes and sectors across the UK, including investors, providers, and users of infrastructure responded to a recent survey about infrastructure organised by the CBI and KPMG (2012). The responses indicated that ... **the quality and reliability of transport and digital infrastructure is a significant consideration in investment decisions (>80%)**”*<sup>6</sup>
- 2.4** Improvements to transport infrastructure can in particular reap benefits for industry, for example the American National Economic Council and the President’s Council of Economic Advisers stated that, *“A well-performing transportation network keeps jobs in America, allows businesses to expand, and lowers prices on household goods to American families. It allows businesses to manage their inventories and transport goods more cheaply and efficiently as well as access a variety of suppliers and markets for their products, making it more cost-effective for manufacturers to keep production in or move production to the United States. American families benefit too: as consumers, from lower priced goods; and as workers, by gaining better access to jobs.”*
- 2.5** If Northern Ireland’s Public Transport Infrastructure and Road and Rail Networks can be improved then so too will our manufacturers positioning within the global marketplace. They will be able to take advantage of a transport infrastructure and network that enables them to maximise their potential, grow their business and ultimately add real value to the Northern Ireland economy.
- 3. Which of these key economic drivers are considered priorities for the services sector?**
- 3.1** The Executive’s focus on high value growth also has important implications for any decisions as to the nature of the transport infrastructure in the longer term. In high value economies, ideas and a skilled workforce, rather than natural resources, are

<sup>5</sup> <http://www.cbi.org.uk/business-issues/infrastructure/transport/>

<sup>6</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/283894/ep20-infrastructure-and-manufacturing.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/283894/ep20-infrastructure-and-manufacturing.pdf)

the principle raw material and success enabler of business.<sup>7</sup> As such, the ability to attract and retain a highly qualified workforce from an increasingly mobile pool has become a key consideration for businesses operating in high value sectors. This has led to increasing importance being attached to quality of life in business location decisions.<sup>8</sup> Issues or factors considered in this regard are likely to include housing, schools, healthcare, social/leisure amenities and crime, with the importance attached to each very much dependent upon the nature of the business and the location options available. Hence it is clear again that transport investment becomes a vital consideration.

**3.2** Modern economic activity takes place on a global scale. Innovation and skills are at the heart of these exchanges and are the driving force of successful cities, regions and countries. Northern Ireland's future prosperity depends on our ability to successfully compete in this global, skills-based and innovative economy, not simply for markets, but also for investment and talent. In order to compete globally we must first be able to connect globally. For that reason, local, regional and global connectivity is an essential requirement underpinning delivery of the Executive's economic and social priorities. The strategic transport network plays a key role in this regard.

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

**4.1** As set out in the Programme for Government 2011-15, underpinned by a focus on sustainability and balanced regional growth, the Executive's top priority is to *grow a vibrant economy, which can transform our society while dealing with the deprivation and poverty which have affected some of our communities for generations*. The Executive's focus is to rebuild the Northern Ireland economy following the impact of the global economic downturn. In doing so it also needs to address the long-term economic challenges which continue to confront the local economy.

**4.2** Living standards in Northern Ireland have persistently lagged behind the rest of the UK, with social exclusion levels well above other parts of the UK. As such, many of our households live in poverty, with joblessness driven by skills deficiencies and a lack of employment opportunities. In light of these challenges, the strategic goal of the Regional Economic Strategy is to rebalance and rebuild the economy and to promote more balanced regional growth across all parts of Northern Ireland. This has important implications for transport and requires a particular focus on building social and economic connectivity at the regional and local level.

**4.3** The Executive's focus on balanced regional growth reflects significant socio-economic variations across the region. Although our most deprived communities are largely concentrated in the urban areas of Belfast and the North West, the

<sup>7</sup> Love and Crompton, *The Role of Quality of Life in Business (Re) Location Decisions*, Journal of Business Research 44, pp 211-222, New York, 1999

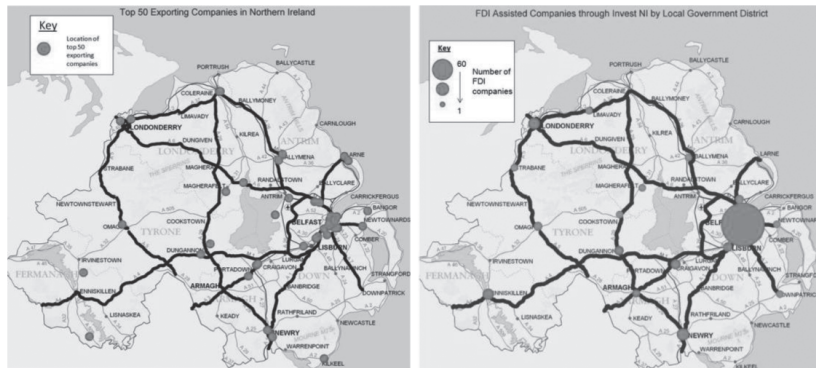
<sup>8</sup> Salvesen and Renski, *The Importance of Quality of Life in the Location Decisions of New Economy Firms*, Centre for Urban and Regional Studies, University of North Carolina, January 2003

least deprived areas in Northern Ireland are generally located in the east and within the Belfast travel to work area.

- 4.4 Notwithstanding the regional prosperity gap between Northern Ireland and other parts of the UK, over recent years the economy of Belfast has grown significantly with Belfast emerging as one of the most prosperous regions of the UK in terms of Gross Value Added Tax per head. However, in comparison to Belfast, other regions of Northern Ireland continue to underperform, with the North and the West of Northern Ireland among the lowest performing regions of the UK. Perhaps more importantly is the fact that the prosperity gap between Belfast and other areas of Northern Ireland has continued to widen.
- 4.5 While promoting balanced regional growth, it is important to acknowledge that all successful regions have vibrant connected cities at their core and this is particularly so for innovative high value economies. It is for this reason that the Regional Development Strategy highlighted the need to strengthen Belfast as the regional economic driver and Londonderry as the principal city and driver for the North West.
- 4.6 In considering regional competitiveness, the World Economic Forum suggests that ***'Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country. 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 economic growth and reduce income inequalities and poverty in a variety of ways.'***<sup>9</sup>
5. **What actions need to be taken, and by whom, to address any gaps in the priority economic drivers?**
- 5.1 Belfast will continue to be the regional driver for growth. Supporting that will require significant investment in the transport infrastructure of the Belfast area to ensure the capacity exists to efficiently move increasing numbers of goods and people. Failure to invest will constrain growth both at a local and regional level.
- 5.2 Alongside action to enhance the capacity of Belfast there is a continued need to invest in the wider regional transport network to enhance urban and rural connectivity. This is essential to ensure all areas of Northern Ireland, particularly the west and north, contribute to and benefit from increased prosperity, and is a fundamental requirement to building a competitive region.
- 5.3 Diagram 1 below highlights how our key exporting companies and the majority of Foreign Direct Investment in Northern Ireland is located along the Regional Strategic Transport Network and in close proximity to our key export gateways.

<sup>9</sup> World Economic Forum, The Global Competitiveness Index 2013-14

**Diagram 1: the location of top exporting companies in NI & Location of FDI**



\* Adapted from Irish Exporters Association, Top Exporters in Ireland and Northern Ireland 2011

- 5.4 In building a competitive region, it is important to recognise that we operate in a global and increasingly connected economy. Therefore, if Northern Ireland is to compete for high value investment and our businesses are to be competitive, there is a need to develop; our global connections from our core gateways either directly or through global hubs; and our connectivity within the region between our key hubs and gateways.
- 5.5 Diagram 2 below illustrates the location of our key ports and airports. The Region's airports are significant for the transit of high value goods and the movement of people. In that regard, the connections they provide, both direct and via global hubs such as Heathrow, are essential to future growth. The bulk of our exports, however, connect to the global economy through our ports and this is likely to remain so, pointing to the need to focus on enhancing connectivity to our ports in addition to our airports.

**Diagram 2: Northern Ireland Ports and Airports**

- 5.6** In considering this it is important to acknowledge that while the Port of Londonderry serves as a key gateway for the North West, it is a port which has not served as an export gateway for manufactured goods for some time. Our key export gateways, therefore, remain in the East, primarily the Ports of Belfast and Larne. Therefore, while it remains important to develop the Western Transport Corridor, if we are to enhance the attractiveness of the North West and the wider region to export investors, there needs to be a corresponding focus on developing our east west connectivity.
- 5.7** As the economy grows, these gateways must have the capacity and capability to facilitate increased growth. Failure to plan for that has the potential to act as a constraint on growth and undermine the ability of our gateways to compete for the share of passengers and freight across the island of Northern Ireland and the Republic of Ireland.
- 5.8** A priority in this context, therefore, is to target investment in the strategic road network with a focus on addressing key bottlenecks and gaps, particularly on key corridors serving our metropolitan areas and gateways. However, there is also potential for rail to positively contribute towards enhanced connectivity and competitiveness.
- 5.9** The focus of rail strategy in Northern Ireland over the last decade has been to halt the historic decline and to maintain the existing network. While that strategy has not provided for extension of the network, it has allowed for the procurement of additional rolling stock to facilitate a 50% increase in the frequency of rail services, in turn delivering significant growth in passenger numbers, up 99.8% from 2004/05 to 2013/14. In 2013/14 over 13 million passenger journeys were made on our railway network. The Department has now published a new strategy to guide future railway investment. The measures and strategic direction set out in *The Railway Investment Prioritisation Strategy* aim to significantly increase the capacity of the rail network, lay the foundations for future electrification of the network and facilitate the first significant expansion in that network for over 50 years.

**5.10** Subject to funding being secured, as part of the Department's vision for the future, Minister Danny Kennedy wants to create integrated transport hubs in Northern Ireland's two major cities Belfast and Derry. These will be *state of the art multi-modal transport interchanges that will be central to providing sustainable connectivity across the entire region*. These innovative projects will see Belfast strengthened as the regional economic driver, Londonderry as the principal city of the North West and help these flagship cities become beacons for investment.

## **6. Conclusion**

**6.1** When considering the importance of transport it is important to look beyond the revenue generating ability of the transport mode itself. The London Underground is not closed due to operating at a loss because it is likely that London would grind to a halt within hours. Transport is an essential enabler to the regional economy it should not be thought of as a profit centre; "Wealth does not create infrastructure; infrastructure creates wealth."<sup>10</sup>

**6.2** Transport is about much more than moving people and goods; it is the thread which binds our region together and we must recognise that its quality will have a significant impact on our rate of growth and the living standards of our people. It is imperative that we properly invest in transport to allow us to create an integrated, modern, reliable and environmentally efficient transportation network.

**6.3** It should be emphasised that Transport is the definitive enabler of sustained economic prosperity. In being responsible for Regional Development in Northern Ireland, Minister Danny Kennedy will continue to lobby Executive colleagues to support ambitious investment in transportation; convince them that transportation funding is a win-win for everyone and that it will play an integral role in ensuring Northern Ireland maximises its potential and enhances its attractiveness and competitiveness as a region.

I hope that the Committee for Enterprise, Trade and Investment will find this response useful in helping them to maximise the potential of Northern Ireland as a region to attract inward investment, grow its economy and create jobs. The Department is of course happy to provide any further information if required to support the case we have outlined above.

The content of this letter is fully disclosable under the FOI Act after the Review is published, but until then, it should not be disclosed - Section 22 of the FOI Act applies: Information intended for Future Publication.

Yours sincerely

[SIGNED]

**Alan Doherty**  
**Departmental Assembly Liaison Officer**

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<sup>10</sup> John F Kennedy

# Grow NI Written Submission



Mr Jim McManus  
Clerk to the Committee for Enterprise, Trade and  
Investment  
Northern Ireland Assembly  
Room 375, Parliament Buildings  
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2 March 2015

Dear Mr McManus

Thank you for your letter of 23 January 2015 in relation to the Committee for Enterprise, Trade and Investment's [ETI] inquiry to consider the potential for economic growth and job creation following a reduction in the corporation tax rate in Northern Ireland.

As you will be aware, Grow NI is an umbrella organisation representing most of the business organisations in Northern Ireland and was formed in 2011 as a vehicle to lobby for the devolution of corporation tax rate varying powers to the Assembly.

Grow NI is very pleased that the UK Government has now legislated for corporation tax rate varying powers to be granted to the Assembly. Whilst these powers will not be available for use until 1 April 2017, ETI has quite rightly identified the next two years as a key time with which to prepare for a lower rate of corporation tax.

The member organisations of Grow NI have each clearly indicated that a lower rate of corporation tax will be a hugely significant event and should be a significant catalyst in the rebalancing of the Northern Ireland economy. However, each organisation fully recognises that a lower corporation tax rate by itself will not be a panacea to private sector growth or economic prosperity. Grow NI therefore greatly welcomes the Committee's inquiry into what other measures can be put in place to maximise the catalytic effect that a low corporation tax should facilitate.

The member organisations of Grow NI will make individual submissions to ETI to identify both sectoral and geographical suggestions. This submission will focus on the issues highlighted by ETI at a Northern Ireland level.

As the members of ETI will no doubt appreciate, there have been a significant number of reports, studies and economic reviews carried out in relation to the Northern Ireland economy over the last five decades.

It is therefore vital that the output of the ETI inquiry should be in the format of an action plan as opposed to a policy document or a report. If the output of the inquiry is to truly attract investment, grow the economy and create jobs, then the output from the Committee must result in tangible actions which can be swiftly and easily implemented in the two year timeframe prior to the reduction in the rate of corporation

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tax. The production of a long, detailed and all-embracing report will have considerably less impact than a short, focused and achievable action plan. Grow NI would therefore urge the Committee to focus now on what can be effectively achieved in the short term and then subsequently consider medium to long term actions.

In line with our call for the production of a short term action plan, the Grow NI submission which is contained in the attached Appendix, is a high level summary of the suggested actions that can be most effectively influenced by the NI Assembly in the next two years.

We trust that this submission will be of assistance to the inquiries deliberations.

Yours sincerely



Eamonn Donaghy  
for GrowNI

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## Appendix I

	Key area to consider	Key economic drivers	Suggested action plan
1.	<p>What are the key economic drivers (other than low 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?</p> <p><b>NOTE:</b> There is limited scope for short term actions in relation to several of the economic drivers identified in the call for submission. The four drivers highlighted are ones where short term actions could make a significant difference to the FDI offering in Northern Ireland</p>	<p>Business Regulation</p> <p>Government Support (practical)</p> <p>Higher and Further Education</p> <p>Skills and Education</p>	<ul style="list-style-type: none"> <li>• Fast track planning permission for FDI projects</li> <li>• Fast track Visa application for FDI employees</li> <li>• One stop shop business registration for all Government bodies (including HMRC)</li> <li>• Set up an Assembly cross cutting Committee to co-ordinate FDI activity</li> <li>• Set up a mobile response team (to include senior politicians) for FDI enquiries to include visiting significant FDI prospects</li> <li>• Set up a one stop shop for FDI enquiries</li> <li>• INI and DETI representatives to sit on each University board</li> <li>• Set up a single point of contact to facilitate employer skills needs with education establishment availability</li> <li>• Subsidise graduate fees for STEM subjects</li> <li>• Create a road map for all 16 year old students identifying available career choices</li> </ul>

*Clerk to the Committee for Enterprise, Trade and Investment*

*18 February 2015*

2.	Which of these key economic drivers are considered priorities for the manufacturing sector?		The actions identified in 1 above should be applicable to all sections of FDI
3.	Which of these key economic drivers are considered priorities for the services sector?		The actions identified in 1 above should be applicable to all sections of FDI
4.	How well is each of the priority economic drivers currently developed in Northern Ireland to support inward investment, economic growth and job creation?	<p>Business Regulation AND Government Support (practical)</p> <p>Higher and Further Education AND Skills and Education</p>	<p>Whilst business regulation in Northern Ireland is well documented, it is voluminous and disparate. The ability to consolidate processes and offer this to FDI would greatly facilitate the attractiveness of locating in Northern Ireland</p> <p>Investment in education and skills needs to be more focussed on the current and future needs of employers. Better and closer collaboration between INI/DETI and the higher and further education establishments will reduce the lead time between employer needs and education/skills delivery</p>
5.	What actions need to be taken, and by whom, to address gaps in the priority economic drivers?	<p>Business Regulation AND Government Support (practical)</p> <p>Higher and Further Education AND Skills and Education</p>	<p>A cross cutting committee should be formed to facilitate the creation of fast tracking processes and one stop shop facilitation</p> <p>A cross cutting committee should be formed to focus on attracting and facilitating FDI</p> <p>The New Department of Economy should focus on facilitating more direct strategic and operational links with the Universities and Education Establishments.</p>

## Campaign for the Economic Regeneration of the Former Visteon Site Written Submission

### Input to the Committee for Enterprise, Trade & Investment's Inquiry to Consider the Potential for Economic Growth and Job Creation Following Reduction in Corporation Tax in NI.

We in the 'Campaign for the Economic Regeneration of the Former Visteon Site' welcome the developments to devolve Corporation Tax to the Executive. These have the clear potential for hugely significantly positive economic impacts across the North and specifically for the former Visteon site between Blacks Road and Finaghy Road North and the wider West Belfast area. We have set out our views under each of the Committee's Terms of Reference below as well as how the new tax powers could have a significant positive impact on our local community.

#### **Identify the key determinants of inward investment and economic growth which Northern Ireland must have in place in order to attract investment, grow the economy and create jobs**

A lower Corporation Tax rate will radically increase the attractiveness of the North as a location for business investment and in particular Foreign Direct investment or FDI.

The reduced Corporation Tax rate will also radically alter the nature and mix of FDI that can be attracted here. Historically the North has tended to attract service based cost centres, many of which have sought to locate in office accommodation in the city centre. However a reduced tax rate will be attractive to companies across a much broader range of industrial sectors and locations.

Looking at the economic success that the lower Corporation Tax rate has brought to the South, by way of comparison [www.idaireland.com](http://www.idaireland.com) reveals that the Republic of Ireland has succeeded in attracting significant FDI from companies specialising in advanced manufacturing, pharmaceuticals, medical devices, life sciences, renewable technologies and research & development. For example, ROI is a location for:

- 9 of the top 10 Global Pharmaceutical Corporations;
- 9 of the top 10 Global Software companies;
- 15 of the top 20 Global Medical Technology Companies; and
- More than 50% of the world's leading Financial Services Firms.

As the experience in the South has shown, firms in these sectors do not necessarily locate in the narrow confines of Dublin City Centre – nor are they suited in many instances to standard office accommodation with many needing production or research and development facilities. These companies are often based in more peripheral areas with good connectivity such as the M50 motorway around Dublin and further afield. Now that the Executive has the power to reduce its Corporation Tax rate, there will obviously be a need for similar suitable locations for such company investments.

The South is our biggest competitor for FDI and therefore to compete effectively with them **the Executive needs to ensure that there is a wide range of attractive sites for potential investors with good connectivity.**

#### **Identify the current gaps that exist in Northern Ireland in relation to the key determinant**

There is a lack of attractive sites for potential investors with good connectivity across the North to tap into the potential FDI. It has been reported in the media that there is increasingly constrained capacity in the Belfast City Centre, Laganside and Titanic quarters. It is obvious

that a large proportion of investment has already taken place in these areas and no doubt further investment is planned. However **the Executive needs to have a wide range of sites available to meet the wide range of investors' needs**. There is no point in having reduced Corporation Tax to attract FDI and then not having anywhere for them to invest.

**Prioritise the areas for improvement to address the gaps in provision in relation to the key determinants**

The devolution of Corporation Tax is a one-off opportunity to significantly boost the North's economy. To enable those parts of NI which have suffered the most from underinvestment in the past, such sites should not be concentrated in central Belfast or the Titanic Quarter but across the greater Belfast area and beyond - with those sites that are well connected to the trunk road network and have good public transport links given a priority. Specifically **there is an opportunity to regenerate those areas which have poor socio-economic profiles**.

**Make recommendations for actions to be taken in order to address the prioritised gaps in provision.**

**The Executive should move quickly to secure and develop specific sites now which have the potential not only to attract FDI but also unlock the potential to transform areas which suffer the blight of high unemployment – particularly among the young.**

It is essential that the Executive grasps this opportunity in a way that helps those communities that have both suffered the most in the past and are most likely to suffer more in the future from the inevitable cuts to public services that will arise from the devolution of Corporation Tax.

## Why the Visteon site?

Our Campaign believes that West Belfast needs to be able to take advantage of this seismic and fundamental change in economic development policy. The former Visteon site given its scale, prominence, and connectivity to the M1 and via that, to air and sea ports presents an ideal opportunity for this area that must be preserved.

West Belfast consistently has the highest rate of unemployment, highest rate of social deprivation, highest rate of child poverty and lowest rates of Invest NI investment across the North. These depressing statistics are a sad indictment and a direct product of the lack of investment in long term sustainable jobs in West Belfast over many years. Continued austerity budget cuts to Government Departments, implementation of Welfare Reform, 20,000 public sector job cuts and further cuts in public spending to devolve Corporation Tax are likely to compound existing high rates of unemployment, social deprivation and child poverty in West Belfast over the coming years. Therefore it is absolutely essential that the potential, which the Visteon Site has to bring much needed long term employment into the area, is grasped with both hands.

This significant site comprises a former manufacturing facility associated with Ford Motor Company of c 300,000 square feet on c 22 acres that was previously crucial to our local economy supporting 1,400 jobs in the 1980s and 600 jobs in more recent times. The site is unique in this part of the city and its clear potential for economic development and job creation must be retained.

## Connectivity

The site enjoys excellent network connections. Access to and from Belfast via the M1 can be gained within one minute's drive. This is more attractive to businesses wishing to access markets to the south and west of Belfast and beyond, than the other side/far side of Belfast. The site's connectivity, size and location near existing Boucher Road and Kennedy Way

businesses also ideally suits the clustering needs of enterprises, such as the proximity to competitors, advisers and suppliers.

This site is extremely prominent and visible to the tens of thousands of commuters and tourists who use the M1 to commute to and from Belfast. The potential for direct advertising to capture new customers and markets is obvious.

Direct access to the motorway, should this be desired, could easily be accommodated at this substantial site. By way of illustration a new direct access road is currently being developed on the country bound side of the M1 between Belfast and Lisburn to facilitate another commercial development.

Besides the excellent access to the M1 the site is also serviced by very good public transport links with nearby train halts at Dunmurry and Finaghy with bus services on both Finaghy Road North and Blacks Road. This stands to be further enhanced by the proposed rapid transit system in West Belfast.

## Suitability for generating employment

We are emerging from the worst global recession in modern history with economic growth of as much as 2.9% predicted for the next year. The economy is returning to growth and West Belfast needs to retain the potential to compete for and exploit the opportunities that the recovery will bring and avoid the easy put down of the past – the lack or absence of suitable sites for economic regeneration.

It will be to the long lasting detriment to this part of the city and the wider area if we fail to recognise the huge opportunities there are in other sectors such as advanced manufacturing, renewables and research to mention a few. We can point to Almac in Craigavon, one of the North's leading companies, or more closely to home, Delta Print & Packaging which is going from strength to strength.

Crucially businesses and investors need a suitable location, and this site must be retained to maximise economic benefit for the whole community.

Options for the site could include a mix of employment opportunities such as business park development, factory, office space, leisure, tourism, public sector/private sector relocation. Given the size and location of the site all of the key drivers for economic development which have the greatest potential for economic growth could be located here. With political will the site could be transformed into a modern economic hub that could incorporate industries such as Telecommunications & ICT, Life & Health Sciences, Agrifood, Advanced Materials and Advanced Engineering. Given the shortage of Grade A office accommodation, there is potential here also.

If Belfast and particular West Belfast is to compete for FDI, then a range of sites needs to be developed across the city and the Visteon site would not only meet this need but provide a wide range of long term employment opportunities for the young people and unemployed in West Belfast for many years to come.

## Current position

Fold Housing Association currently has a planning application for housing on the site with a minimal business element of around 5% of the site's area. The overwhelming weight of local community opinion is against Fold's proposals with over 800 objections to date. It has already been set out in detail for Planning Service where Fold's application does not comply with relevant Planning Policy – in particular where the proposed economic development is not 'significant' as set out in PED 7 of PPS 4. In our most recent meeting with Planning Service

they also agreed with our Campaign's assessment that Fold's proposed commercial/business element for the site was not 'significant'.

## DETI's View

With reference to the proposal, economic use on the site and proposed economic zoning through BMAP, the **DETI Minister** confirmed in response to a question put to her at the NI Assembly on 20 January 2014 that:

*"The situation with land that is zoned for economic development is this, and Invest NI is very clear on the issue... and this is what we will be saying to the Minister of the Environment, the planning department ... we are generally **opposed to the loss of land that is being used, or was last used, for industry to non-industrial users.**"*

*The position of DETI is clear in this case. Invest NI confirmed this position in its consultee response to Fold's planning application when it stated "In line with its stance at dBMAP, Invest **NI remains generally opposed to the loss of land that is being used, or was last used, for industry...**"*

## Conclusion

If Fold's housing application is approved for the site, the last major strategically important brownfield site in West Belfast to create a lasting legacy of long term jobs for this area will be permanently lost. Over the past 18 months there has been a growing momentum among the local community to ensure that this does not happen. The Corporation Tax announcement now provides the economic tools to help deliver this legacy.

A key determinant of inward investment and economic growth for the Executive is having a wide range of commercial sites to attract investors, grow the economy and create jobs. The former Visteon site's size and location has the clear potential to meet such criteria and provide a wide range of sustainable employment opportunities for the young people and unemployed in West Belfast for many years to come.

This site was once a major employer. It can once again be brought to life as a major employment hub and provide long term jobs for the people of this part of Belfast.

**Campaign for the Economic Regeneration of the Former Visteon Site**

**<http://www.econregenfv.co.uk/>**

February 2015

# Department of Education Written Submission



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4 March 2015

Dear Jim

**Committee for Enterprise, Trade & Investment - Inquiry to Consider the Potential for Economic Growth and Job Creation Following Reduction in Corporation Tax in Northern Ireland**

Thank you for your letter of 23 January 2015 inviting the Department of Education to respond to the Committee's Inquiry considering the potential for economic growth and job creation following a reduction in corporation tax.

The Department of Education recognises that economic growth will be greatly dependent upon the delivery of high-quality education within our own education system. We have to have confidence that our young people are developing the skills and attributes, and securing the qualifications that will enable them to take their place as contributors to society and the economy.

To that end, the Department's priorities are to improve educational standards and address underachievement wherever it occurs. There are a number of key drivers in that effort – some of which are within the remit of Executive Departments, and others which are not.

At the core of our endeavours is our curriculum, which combines knowledge, skills and understanding. Recognising that the experience of employment for many of our young people may be very different to that we see today, the curriculum seeks to ensure that they leave school with the kinds of skills that will enable them to apply themselves to jobs that may simply not yet exist; thinking skills, team working, creativity, problem solving, and so on are all explicitly set out in the statutory curriculum. Likewise, the area of learning called

'Learning for life and Work' is compulsory throughout Key Stages 3 and 4. This covers careers education, local and global citizenship, and entrepreneurship, all of which are relevant to the employability of our young people.

Underpinning the delivery of all learning are the **cross-curricular skills** of communication, using mathematics, and using ICT. Without these, children will not be able to access the other parts of the curriculum, and low levels of attainment in these skills will have a continuing

impact on an individual's capacity to contribute to the economy. That is why parents, the wider public and the Executive need to be assured that schools are delivering the necessary progression in children's attainment in these skills. DE will continue to press ahead with new assessment arrangements which will demonstrate how our education system is delivering against stretching targets to improve attainment at KS1, KS2 and KS3 at system level.

It is important that all children are given access to **high-quality teaching and learning in school**. Our school improvement policy – Every School a Good School – sets out the qualities of a good school, and through inspection by the Education and Training Inspectorate (ETI) and support from the Education and Library Boards (and soon the Education Authority) drives improvement.

In order to fulfil their potential, children must also be able to **access appropriate courses**: courses that interest and engage them, and which offer progression to the next stage of their education, to training or employment. Under the Entitlement Framework policy, all schools are obliged to offer a minimum number of courses at Key Stage 4 (KS4) and post-16, including a mix of 'general' and 'applied' subjects (at least a third of each)<sup>1</sup>. From September 2016, the minimum at KS4 will be 24 and at post-16, 27. In support of the Entitlement Framework, schools work together with partner schools and Further Education colleges locally in Area Learning Communities. By organising to deliver the curriculum on an area basis, the provision to young people is broadened and children have access to high-specification plant and expert teachers.

The curriculum and Entitlement Framework are supported by the work of **qualifications** regulation and accreditation by the Council for Curriculum, Examinations and Assessment (CCEA). DE believes that the best interests of pupils are served by maintaining an open market for qualifications, subject to local accreditation. We will continue to require that qualifications reflect the needs of employers as well as confirming the attainment of pupils against the statutory curriculum. It is essential that all key stakeholders engage with the current process of revision of GCSE and A level specifications – schools, FE and HE, learned societies, employers etc.

Within the parameters of the statutory curriculum, individual courses of study at school are a matter for schools and families to decide. It is essential that those decisions are well-informed, and DE is committed to the joint **Careers Strategy** with DEL, so that careers education in schools is supported by careers advice through the Careers Service. The broad outline of that strategy is sound, and the recent independent review contains recommendations to improve it further.

The local management of schools and the great degree of autonomy with which schools are able to operate in terms of the delivery of the curriculum means that the Executive cannot demand the delivery of certain subjects or specify courses of study. It is, therefore, essential that delivery of economically-relevant subjects for the labour market is also reflected in **parental demand and through the engagement of employers with schools** through careers education and Boards of Governors. Personal – and very often parental – choice will be the ultimate determinant and there remains a task to turn around the attitudes of parents towards education and career options, to reflect the changing realities.

Where schools and parents are well informed about the labour market and the employment opportunities for young people, we would expect there to be appropriate demand for specific qualifications, courses and skills. The Department recognises the **particular importance of the STEM subjects as being of economic relevance**. Subject to the availability of resources,

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1 The distinction between general and applied courses rests largely in their assessment: general subjects are assessed primarily by reading, recall and extended writing; applied subjects through some practical application of other skills. 'Applied' subjects may be related to employment, but in the school context do not lead to a professional or technical qualifications, and also include some 'traditional' school subjects such as music and art.

the Department will lead Executive departments in providing support at a regional level to targeted interventions in the STEM field, as well as business and entrepreneurship.

All schools are required to deliver the same statutory curriculum and all schools operate within the same qualifications landscape. International evidence points to the weaknesses of education systems in which children are divided on the grounds of socio-economic status, which is demonstrably the case as a result of academic selection here. In the context of the contribution of education to economic development, **academic selection** serves only to prevent young people benefitting from the advantages of all-ability schooling, with the consequential negative impact upon levels of attainment and the creation of a long tail of underachievement.

From an Education Workforce Development perspective, the requirement for school leavers to have the skill set that employers need may impact on the demand for experienced teachers in specialist subject areas. We may need to consider how we select students for initial teacher education and how employers recruit graduate teachers to specialist posts.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Russell Welsh', written in a cursive style.

**Russell Welsh**

Departmental Assembly Liaison Officer



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# Institute of Directors Written Submission

**Institute of Directors**

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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.

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?

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.

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

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# Mid Ulster District Council Written Submission

## Mid - Ulster District Council

### Response to NI Assembly's Enterprise, Trade & Investment Committee Consultation on 'Growing the Economy and Creating Jobs with Lower Corporation Tax'

#### March 2015

This Paper is Mid Ulster District Council's Response to the NI Assembly's Enterprise, Trade and Investment Committee's Inquiry to consider how the two-year period leading up to the devolution of Corporation Tax varying powers in April 2017 can be used to maximise NI's potential as a region to attract investment, grow the economy and create jobs and determine the key economic drivers that the NI Executive can influence to achieve these outcomes.

**Deadline:** 10 March 2015

Mid Ulster District Council advises the points noted herein as comprising its response to the proposals.

- Council acknowledges the potential of these new powers to stimulate economic growth. However, it also recognises that a cut in the corporate tax rate from 21% to potentially 12.5% will reduce Northern Ireland's corporate tax receipts by 40%; this reduction in income will be in addition to further planned cuts in public expenditure – as yet unspecified – yet to be announced.
- Furthermore, the impact of the deduction from the annual budget of potentially £300m on public services and, more specifically, frontline services (which are already experiencing severe pressures in advance of further austerity measures) remains a key concern.
- In addition, NI's recovery has been at a much slower rate than the UK average; while economic activity increased by 1.2% relative living standards still remain well below UK average.
- However, the opportunity to create jobs, attract investment and stimulate growth is to be strongly welcomed. Council believes that, if appropriate and targeted measures are deployed, this is a key opportunity for the NI Executive to deliver balanced regional economic growth and address some of the long standing inequalities.

#### Context

A number of key disparities exist across the Mid Ulster and wider Western region which have long acted as a barrier to sustainable economic growth, including:

- a) Its peripheral and dispersed rural location
- b) High level of micro and small businesses
- c) Need for infrastructure investment in both roads and telecommunications
- d) Little or no foreign direct investment
- e) A number of multiple deprivation and new TSN areas
- f) Higher than average long term unemployment levels
- g) Below average employment in the public sector
- h) Average weekly earnings below the Northern Ireland average
- i) A strong dependency on the agricultural sector which is contracting rapidly.

## **Growth Drivers**

It is critical that the income from the devolving of corporate tax setting powers is targeted at delivering real and meaningful change to transform our economy to stimulate investment, job creation as well as broader societal benefits, and Council advises the following as priorities to be addressed:

- The Mid Ulster District Council area has the highest number of businesses (7915) of any Council area outside Belfast; the sub-region is dominated by the small business sector, in that 99% of the area's businesses employ fewer than 50 people.

The additional income generated from this tax is required to address long term economic imbalances and deliver measures to accelerate business growth in our indigenous businesses which could include e.g. the creation of a Small Business Innovation Fund to provide specialist support this sector to exploit new opportunities in R&D and drive competitiveness and productivity.

Competing in a global market – NI's smaller businesses face a greater challenge than most of the UK in competing in a global market – need to increase capacity of private sector to export

- Improving skills, employability and job creation are essential to build sustainable economic growth– research estimates that a reduction in NI's Corporation Tax rate is expected to create 58k jobs above the baseline employment levels by 2030. Given the region's problems with long term unemployment it is critical that Mid Ulster is identified as a priority area to address this issue.
- Large scale investment is also required to improve infrastructure in the sub-region (both connectivity and roads); for far too long businesses in Mid Ulster/ West have been prevented from competing on an equal basis with their counterparts in other areas due to poor provision.
- Creation of an Enterprise Zone for the sub-region to create conditions for sustainable balanced growth, support entrepreneurship and facilitate business expansion
- Research has estimated that of the 58k new jobs which could be created, 25k of these may be as a result of new Foreign Direct Investment. To date, the Western sub-region has seen virtually no FDI. If there is to be balanced regional economic development the policy for locating new investment needs to be reviewed.
- Facilitate increased access to finance for our local business sector to support growth and R&D

## **Summary**

New Council-led Community Planning powers means that Councils are pivotal to the future development of their distinct micro economies and communities; local government is now the 'key driver' to make things happen at local level.

The two tiers of NI government (NI Councils and NI Executive) share the same key economic and social challenges, and a partnership approach should be considered to drive future economic development (in its broadest sense) and address long standing regional economic disparities to achieve greater prosperity for all throughout our society.

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# Road Haulage Association Written Submission

Please find attached response document.

Chris Campbell FCILT MCIPD, Policy Manager

Road Haulage Association Ltd  
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## **Please consider the environment before printing this email**

A call for views from the Northern Ireland Committee for Enterprise, Trade and Investment.

Dear Committee Members,

Thank you for inviting the Road Haulage Association to make comment on plans for future growth in the Northern Ireland.

The Road Haulage Association is a substantial trade association representing road haulage and logistics companies throughout the United Kingdom. Our members range from small hauliers with one lorry to the largest road freight logistics operators with hundreds of vehicles. We also have interest in multi-modal operations, in particular, sea and rail transport. In addition to our representational role we provide advisory and operational services including training, educational, legal, and compliance auditing. The Road Haulage Association has an office in Edinburgh with staff serving members in Scotland and Northern Ireland. We now have two members of management staff based in Northern Ireland to help meet our plans for future operational expansion 'across the water'.

## **Summary:**

The Road Haulage Association supports the overall aims of the proposals to attract investment, expand the economy and create more jobs in Northern Ireland. We are very keen to get involved with these plans and giving assistance whenever possible to achieve action outcomes. Detailed Comments: We have been asked to in particular give feed-back to the Committee on subject matter listed on page 19 of the 'Manufacturing Makes Northern Ireland Strong' document:

## **Actions:**

- 1) Road infrastructure creation and upgrading is vital for the road freight logistics sector to provide efficient and reliable services to manufacturing and service industries. Improvements to the A6 route between Randalstown and Londonderry are therefore significant to this aim.

- 2) As noted in item 1) the A5 route is another example of an important roadway that requires modernising and upgrading as soon as possible.
- 3) Moving goods in and out of the ports is one of the Road Freight Logistics sector's busiest tasks. Many UK ports are within city boundaries area of which are prone to traffic congestion and consequent delivery delays. We would support any plans to ensure lorries get to their destinations as quickly as possible thus reducing operators cost, end user charge and pollution levels.
- 4) We understand the need for robust systems of fuel supplies such as gas electricity and petroleum based fuels. Looking ahead, gas and electricity supplies in 'Low Carbon Economies' may be very important for road vehicle propulsion including freight and passenger carrying modes.
- 5) We are presently involved with Scottish Government and their Freight Ferry Fare Structure Review Consultations. Should such a review take place in Northern Ireland we would be happy to be involved.
- 6) The freight logistics sector is deeply involved in data transmission and telematics thus relying on high speed reliable GPS and internet connections.
- 7) The Association would agree for the need of a central regime co-ordinating infrastructural developments within Northern Ireland. We have recently given evidence to the Investment and Capital Expenditure Committee of the Scottish Government regarding freight transport and would be happy to participate with such a regime if set up in Northern Ireland.

Finally, if we may, a comment or two on other matters not directly related to the items we have been asked to respond.

There are concerns about recruitment within our sector, with staff shortages particularly in the area of commercial vehicle technicians and lorry drivers. It would seem that funding of trainees and apprentices in Northern Ireland is less generous than in GB and this situation should be reviewed. Also, at present, we are lobbying UK Government to help with grants to fund Vocational Licence acquisition to increase the number of professional lorry drivers needed to meet increased demand for such skills.

The question of commercial high property rates and fuel costs are other factors that cause us concern. At this stage we have not gone into detail regarding the matters mentioned in the last paragraph but would be pleased to do so at a later stage if requested.

**Road Haulage Association Scotland and Northern Ireland**

Document dated 9th March 2015 reference Northern Ireland Assembly.



# Belfast International Airport Ltd Written Submission

09 March 2015



Mr J McManus,  
Clerk to the Committee for Enterprise, Trade and Investment  
Northern Ireland Assembly  
Room 375  
Parliament Buildings  
Stormont  
BELFAST BT4 3XX

Dear Mr McManus

## **Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment**

Please find attached a submission in relation to the Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment.

If the Committee would like clarification on aspect of the submission or would like to discuss this in greater detail please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Graham Keddie", written over a faint circular stamp or watermark.

**GRAHAM KEDDIE**  
Managing Director

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**Northern Ireland Assembly  
Enterprise, Trade and Investment  
Committee (ETI)**

**Inquiry into Economic Growth and Job Creation in  
a Reduced Tax Environment**

**Submitted by:  
Belfast International Airport Ltd**

**09 March 2015**

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### **Introduction**

Belfast International Airport (BIA) accounts for 4,000 employees on the second largest employment site in Northern Ireland, generating some £100 million in wages and salaries. Last year, the airport had 4.01 million passengers and carried 44,000 tonnes of cargo. It is the region's largest airport and has the capacity to double in size to 8 million passengers within 5/10 years. It is also forging ahead with the development of a 100-acre Enterprise Zone which would create 4,000 new jobs. Taken together, the increased passenger throughput and Enterprise Zone hold out the real prospect of generating 8,000 new jobs at a fraction of the cost of Foreign Direct Investment (FDI).

### **Corporation Tax**

BIA welcomes the progress that has been made on the devolution of tax varying powers to the Northern Ireland Assembly. Not only would it help the region compete more effectively against the Republic of Ireland for scarce international FDI projects, but it would send a forthright and positive signal that the devolved administration is capable of the type of far-reaching strategic thinking that can deliver real economic benefit.

### **Bold and visionary**

The campaign to secure the devolution of tax varying powers from London has been characterised by consistent and strong advocacy. There have been critics and detractors, but in the main, the weight of opinion from business and commerce has been supportive. BIA applauds the bold and visionary stance adopted by politicians who view the power to set Corporation Tax rates as an opportunity to re-invigorate the economy and generate employment and wealth.

### **Air Passenger Duty (APD)**

BIA would like to see the same intensity of debate around Air Passenger Duty (APD). Northern Ireland secured the concession on long-haul APD which safeguarded the United Airlines Belfast-Newark service, but the tax still applies to short-haul at £13 per passenger each way. In its recent report, the Northern Ireland Centre for Economic Policy (NICEP) maintained there was not a strong enough case for eliminating the tax. Furthermore, it purported to show that the removal of APD would carry a 'price tag' of £55 million which would have to come out of the NI Block Grant. Far from dampening enthusiasm for the devolution of APD, this report, which was commissioned by the Northern Ireland Executive, has galvanised the campaign. Unlike any other region, Northern Ireland has a land border with another EU member state which means that what economic factors in play fifty miles from Belfast have a significant and profound effect on what happens in Northern Ireland. Dublin Airport is flourishing since the Irish Government u-turn on passenger tax. They saw the tax as an obstacle to inbound tourism and a distinct drawback when it came to realising ambitious growth targets for the sector. Once convinced that the case for the removal of passenger tax was sound, the Irish Cabinet moved with speed to remove the impediment. Almost overnight, that created a yawning gap between the two jurisdictions; the Republic of Ireland was moving forward with a zero-rate which meant, at a stroke, it had added a powerful advantage over Northern Ireland.

### **The Cost**

The cost to NI airports has been a heavy one. Dublin Airport Authority, a state owned body, has acknowledged publicly that it is its intention to further exploit the Northern Ireland travel market. According to Dublin Airport, Northern Ireland passenger numbers for 2013 grew 13%. In the first six months of 2014, passenger numbers have increased by 47%. Members cannot fail to see the level of marketing being carried out in Northern Ireland as it goes all out to achieve Island-wide domination. Put bluntly, Northern Ireland, by its inactivity, is inadvertently aiding and abetting the growth of a major airport rival in the island at the expense of its own airports which are hamstrung because of APD. Revenues are being lost. Jobs are not being created. The levels of growth required to maximise our tourism are not being delivered. Investment is not coming forward to the extent that is required.

### **Tourism twin-track**

The zero passenger tax in the Republic of Ireland is also creating difficulty for the organisation charged with the promotion of Northern Ireland internationally. Tourism Ireland Limited (TIL) has nailed its colours to the mast by promoting Dublin Airport as the main gateway where passenger tax doesn't apply. The bulk of visitors to Ireland arrive and depart via Dublin and they tend to spend the bulk of their time and holiday money in that jurisdiction. What flows northwards is but a fraction of the total spend. Growth has been achieved, but it is a long way off its full potential simply because we have APD and insufficient international destinations on our airport route servers. This leads to a twin-track approach by TIL. Direct access to international markets is key and without it, TIL has no choice but to focus on the 'can-do' at the expense of the other region.

### **Local perspective**

A local industry perspective was provided by Tourism NI chairman Howard Hastings. In a BBC interview on the NICEP report, Mr Hastings said: "If you compare with our nearest neighbour in the Republic of Ireland, in the two years since they abolished air passenger duty, they've seen arrivals grow by 1.1 million passengers. That's not to say it would happen to that extent for us, but the size of the prize is enormous."

### **Scotland**

Scotland has no qualms about the need to act decisively on APD. Like the Republic of Ireland, the Scottish government sees the tax as an enormous handicap when it comes to tourism development and the growth of new air routes and Scottish airports. It has secured a concession from Westminster for the devolution of APD and it is Holyrood's stated intention to erase it from the statute books.

The position of the Scottish Government is summarised here by Keith Brown MSP, Cabinet Secretary for Infrastructure, Investment and Cities, speaking on the 24/02/2015:

*"Once APD is devolved, the Scottish Government is committed to reducing it by 50% within the term of the next parliament. We will provide further incentive by moving to abolish APD when public finances permit. These are major steps that could make a real difference for our airports and passengers."*

*"Devolving APD to Scotland as soon as possible is backed by leading aviation industry figures in Scotland and will help to unlock the country's full economic potential, bringing more international flights to all of our airports as well as cutting costs for passengers."*

## **Wales**

The Welsh Assembly wishes to emulate Scotland and the Republic of Ireland. The arguments are identical and forcefully put.

The Welsh First Minister, Carwyn Jones, set out the position in an address on the 8/11/2012:

*"Air passenger duty is another tax that should, in my view be devolved. While London struggles with where to build additional airport capacity, we in Wales face a very different problem. Our national airport in Cardiff has not enjoyed the growth in passenger numbers and destinations that we need to help drive economic growth. Devolution of air passenger duty would give us a useful tool to incentivise the growth of Cardiff airport and other smaller facilities, such as Anglesey in north Wales."*

## **Other elements**

Other elements also need to be factored into the equation. Structured financial help for airlines is required if Northern Ireland is to develop new North American, European and Middle Eastern routes. This, rather than the removal of APD, may be favoured in certain government quarters, but the reality is both passenger taxation and an air route development mechanism are required to address the advantage enjoyed by Dublin.

## **Losing out**

Northern Ireland is losing out on a number of airline opportunities. They are prepared to move swiftly to locate a base in Northern Ireland and offer a level of connectivity at attractive fares, but APD is a deterrent. The routes they have in mind are desperately required to boost connectivity and develop direct inbound tourist traffic. If action isn't taken, they will move to locate their aircraft where there are more lucrative opportunities.

## **Cost versus benefit**

BIA fully acknowledges that the elimination of APD would come at a cost. However, we do not accept that it would be £55 million or anything like it. If the tax were devolved, it would presumably require a commitment from Treasury to offset income increased tax receipts against the cost of APD. Similarly, increased passenger traffic delivered by new airlines to Northern Ireland would inject millions of pounds in increased spending with significant benefits for local hotel, restaurant and hospitality sectors. This 'rising tide' effect would boost investor confidence and increased job opportunities would result.

## **Appeal**

BIA's appeal to the ETI Committee is to support our call for the devolution of the power to fix APD rates. Ultimately, this airport would wish to see it consigned to the history books, but a first step has to be an acknowledgement of the great harm that is being done by its crude application. We would appeal to the Committee to investigate the Scottish position in detail and, once convinced, to champion the cause in the Assembly and directly to Ministers in the Northern Ireland Executive.

**ends**

# Dairy UK (NI) Written Submission

From: Mike Johnston (Dairy UK) [mailto:MJohnston@dairyuk.org]  
Sent: 10 March 2015 08:16  
To: McManus, Jim  
Subject: Response to consultation

Jim

Attached is a response from Dairy UK (NI) in relation to the consultation on the potential for economic growth and job creation. If you have any queries, please come back to me.

Mike

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Draft

Dairy UK (NI) response to Committee for Enterprise, Trade and Investment

## Background

Following the announcement by the Secretary of State for Northern Ireland in January 2015 that the Westminster Government will introduce a bill to devolve corporation tax varying powers to Northern Ireland from April 2017, The Committee for Enterprise, Trade & Investment is to conduct an Inquiry to consider the potential for economic growth and job creation following reduction in corporation tax in Northern Ireland. The Inquiry will centre on how this two year period can be used to maximise the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs. The key focus for the Committee will be on the other economic drivers Northern Ireland can influence and must have right in order to maximise its potential.

## Response from Dairy UK (NI)

The following comments are offered in relation to the specific questions asked in the Committee's consultation letter:

(i) **Energy**

Northern Ireland has one of the highest energy costs in western Europe, which places NI companies, especially those in the manufacturing sector, at a competitive disadvantage. A significant energy cost differential exists within both the UK, where costs are lower in GB compared to NI; and within NI, where the absence of natural gas in western counties means companies located there have a significant cost disadvantage. NI needs a better energy/electricity infrastructure that will deliver lower energy costs and remove a competitive disadvantage for NI companies.

The NI dairy sector exports over 80% of its milk production as dairy products, to a range of destinations within and outside the EU, and, therefore, has to compete with global competition for customers and sales. A key element of the decisions by these customers is

price, and from a NI perspective having a low cost base is an important area to try to achieve at least competitive parity with dairy companies from other countries. After the cost of raw milk, energy is the next highest cost for NI dairy companies, and these high costs relative to competitors is a significant disadvantage. Lower energy costs would improve the competitive position of NI dairy companies.

(ii) **Planning**

The administration of Planning in NI is in a transition phase as it moves to the new Councils. Although this should improve the efficiency of dealing with planning applications the concern is that the transition will not be smooth and seamless, and that delays and problems will arise. The NI Executive should take responsibility for ensuring that service delivery, especially in the area of planning, does not suffer as a consequence of the transition. Appropriate metrics should be established to assess the effectiveness of the transition, especially against time based targets, all of which should be placed in the public domain.

The NI dairy sector is well placed to continue to achieve year-on-year growth for the foreseeable future, and this will bring demand for the development of existing, and possibly new production and processing facilities. In a competitive global environment, the implementation of decisions to invest in new production and processing facilities needs to be quick, given the imperative to start to recoup return on investment. Slowness in planning, therefore, confers a competitive disadvantage compared to companies in GB and other countries, where planning is quicker and more efficient. It is also to be hoped that the move to the new Council structure in NI will remove the differences between Councils in their approach to dealing with planning applications. The provision of a quicker, more efficient planning service is needed from the new Council structures, and an integral and important element of the achievement of future growth within the NI dairy sector.

(iii) **Access to markets**

The delivery of future growth within the NI dairy sector will depend on increasing sales within the existing customer base, and developing the existing customer base through the identification of new markets and developing relationships with new customers. In achieving its growth potential in these ways, the NI dairy sector would benefit from assistance from the NI Executive. Opportunities for NI Executive assistance include:

- Working with the dairy sector to prioritise markets.
- Planned programmes for Ministerial involvement to help open potential new markets and assist in the development of relationships with potential new customers.
- Competitor dairy companies in other countries benefit from bilateral trade agreements in certain importing countries, such as China, placing NI dairy exporters at a competitive disadvantage. The process of achieving bilateral trade agreements at UK national level is complicated when placed alongside the benefit of having agreements that would benefit NI dairy companies, to the extent that the opportunities for the NI dairy sector to influence UK level bilateral trade agreements have been non-existent. Therefore, just as the NI Executive has achieved the opportunity to set a rate of Corporation Tax for NI, so it should progress the opportunity for NI to establish bilateral trade agreements specific to NI with countries with which there would be trade advantages for the NI agri-food sector generally. In the absence of such flexibility and autonomy, the NI agri-food sector will increasingly be disadvantaged in export markets.

(iv) **Food business education and training**

In terms of sources of competitive advantage for the NI agri-food sector, options are limited. Although each segment of the sector will have a different range of options, a core and common source of competitive advantage is having the best people who have higher levels of competence compared to competitors. NI should strive to be a world leader in food business education and training, with a reputation for having people of the highest competence levels

across the various business disciplines. High levels of business education, generally, exist with NI's two universities, and in CAFRE the agrifood sector has an excellent facility for food technology education and training. The opportunity exists to build on these platforms to develop a food business education excellence in NI that not only provides a flow of well-educated and trained people for the agri-food sector, and who will be a sustainable source of competitive advantage, but also will be recognised as a world leader in this area.

The other main advantage of such an approach is that it would provide the opportunity to engage in leading edge research that would be of direct benefit to the management of companies within the NI agri-food sector.

(v) **Rates**

Rates, although a necessity, are an ongoing burden on NI dairy companies. The existing cap on business rates must be maintained, to ensure that the balance of burden does not make businesses uncompetitive.

(vi) **Business regulation: environment**

For NI dairy companies, environmental issues are very important. From a marketing perspective, the positioning of NI as good place to source dairy products because of its "green credentials" is an important source of competitive advantage. And as valued participants in their local communities dairy companies recognise their responsibility to contribute to a clean environment for all the community. However, on the down side there is an unacceptable level of bureaucracy associated with compliance with environmental legislation. Although the NI Environment Agency (NIEA) is attempting to have a more proactive relationship with dairy companies with a view to prevention rather than prosecution, nevertheless the assessment is that Agency staff are more concerned with minimising criticism of their actions rather than working with companies in a risk-based approach. Where it can be demonstrated that risk is minimal, then there should be a "proportionate engagement" by the Agency, which would mean less cost for dairy companies. In addition, there is lack of uniformity in approach across NI and between NI and both GB and RoI, and issue which the NI Executive should address.

(vii) **Communications infrastructure**

In today's business environment, communication is the cornerstone of doing business. NI dairy companies have global customer bases, and having an efficient and effective communications infrastructure is accepted as a pre-requisite to doing business with customers locally, nationally and internationally. In this respect the mobile telephone network in NI is like the curate's egg, good only in parts. The NI Executive should ensure that an efficient communication infrastructure is available throughout NI.

(viii) **Political climate (National)**

As with any general election, there is uncertainty around the June 2015 Westminster election. This uncertainty extends beyond the nature of a new Government to the influence of the outcome on the UK's relationship with the EU. A debate on UK membership of the EU will not be helpful in the efforts of NI dairy companies to secure new customers based on the advantages of doing business with a company based within the EU, and a prolonged debate will certainly have adverse effects on the willingness of some customers to do business with companies which are entirely UK centric. Such a debate is likely to have an adverse effect on sterling, which will, in turn, have an adverse on export of dairy products from NI, and impact negatively on the revenue entering the NI dairy supply chain. The EU is not without its faults, and there is a case for reform, but the best place for the UK is within the EU, not outside it.



## Enterprise NI Written Submission

Please find attached the Enterprise Northern Ireland response to the ETI Committee Inquiry into Job Creation and Economic Growth.

I trust that this submission will be of assistance to the Committee's deliberations.

Kind regards

**Caroline O'Kane**

Enterprise Northern Ireland

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The information within this email is confidential and intended solely for the individual to whom it is addressed.

Views or opinions presented are solely those of the author and not necessarily that of Enterprise NI.

Enterprise Northern Ireland  
Response to Committee for Enterprise, Trade & Investment Inquiry into  
Job Creation and Economic Growth

9th March 2015

Aghanloo Road Limavady BT49 0HE

Email: [caroline.o'kane@enterpriseni.com](mailto:caroline.o'kane@enterpriseni.com)

## Inquiry into Job Creation and Business Growth

Thank you for the opportunity to contribute to the Committee on Enterprise, Trade & Investment Inquiry into how economic growth and job creation can be supported in Northern Ireland in ways additional to the devolution of corporation tax-setting powers from Westminster to Northern Ireland.

Enterprise Northern Ireland, the representative body for the network of Local Enterprise Agencies across Northern Ireland and the thousands of small businesses who have participated in ENI-managed programmes, congratulates the Committee for recognising that the devolution of corporation tax-setting powers – and the ability to set a reduced rate for the region – is on its own not enough to stimulate economic growth and to create jobs in Northern Ireland.

Although reduced rates of corporation tax will greatly assist the rebalancing of the Northern Ireland economy, Enterprise Northern Ireland believes that the Committee should focus on the following key economic drivers in order to contribute to the economic transformation of Northern Ireland, stimulate economic growth and create jobs by attracting increased levels of FDI.

### **Skills and education**

Although Northern Ireland has outperformed many other UK regions in terms of attracting high value added FDI, concerns have been raised around the region having a higher share of low and very low value added FDI when compared to Rol and GB. This calls into question the quality of some jobs created as a result of FDI, and the longevity of organisations locating here within certain industries such as the business and professional services sector.

However, in order to consistently attract high value jobs, high skills levels are required by prospective FDI amongst the workforce pool. Through its successful delivery of business support programmes such as Exploring Enterprise and Exploring Enterprise 2, Enterprise Northern Ireland is aware that there is a clear relationship between a country's or region's level of skills and its economic growth. Skills have a positive impact on an organisation's ability to promote and enhance innovation, and the availability of a skilled workforce is constantly cited as one element in attracting prospective FDI to Northern Ireland. For instance, one of Northern Ireland's key strengths as a FDI location is the supply of undergraduates and postgraduates, particularly in the subject area of computer science.

This provides a fit with the technology sector, ranking Northern Ireland above other competitor locations.

However, today's businesses across all business sectors typically require a different and flexible skills set from their employees, and there are indications that many businesses and industries are struggling with a general shortage of skills. Many industries have indicated that they are approaching a talent time bomb with many struggling to find employees with the right skills. This is an obstacle to individual business success and will impact greatly on the ability to attract FDI. As a key economic driver for Northern Ireland, the Committee must take action to ensure that Northern Ireland increases the number of high quality under- and post-graduate students across a range of academic disciplines. This is perhaps easier said than done, as forthcoming budgetary constraints due to impact on the primary, secondary and tertiary education system, could have long-term implications in terms of skills development for generations. For instance, announcements last week from the Minister for Education that funding for primary school language programmes would be cut will have a long-term impact on the ability to attract, years down the line, FDI from companies that export to non-English speaking countries.

In order to continue to attract FDI, the region must continue to invest in, and build upon, its supply-side capabilities, including academic education and research. In terms of skills development, the range, number and quality of vocational skills, necessary for attracting the industrial and manufacturing sectors, as well as training development for service sectors,

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must be prioritised, as should an improvement in language skills. Such investments will ensure that Northern Ireland maintains its advantage in producing highly skilled and trained under- and post-graduates capable of filling the jobs created.

### **Labour costs**

Enterprise Northern Ireland is aware of research that indicates that average labour costs has the greatest impact on FDI jobs creation over and above other key economic drivers, including lower rates of corporation tax. This, combined with lower property costs and the provision of financial incentives, gives Northern Ireland an advantage over competitor locations. The region is therefore believed to provide one of the most cost-effective business environments in Europe.

### **Enterprise Zone**

The development of the first pilot Enterprise Zone for Northern Ireland, announced in the Chancellor of the Exchequer's 2014 Budget speech, should be prioritised. Enterprise Zones in GB have demonstrated their worth in terms of attracting like-minded companies to set up and create jobs. Given the region's strong track record in attracting FDI within the computer sciences sector, and the pool of highly qualified potential employees graduating from colleges and universities, the announcement one year ago had raised hopes hope that the Enterprise Zone would play a crucial role in capitalising on these strengths by creating a thematic area for companies within the technology sector.

As Enterprise Zones can offer a range of incentives for businesses to start up or expand, there is perhaps potential for the Committee to explore the possibility of extending the existing pilot, or developing new Enterprise Zones, across the region, in order to help achieve the Northern Ireland Executive's number one priority to grow the economy. There are undoubtedly countless areas across the region which could advantage from the benefits offered by enterprise zones, perhaps even more so than the site of the pilot in Coleraine.

### **Business communication**

Communication links are frequently cited as one of the incentives offered to potential FDI. However, despite the rollout of the ongoing Northern Ireland Broadband Improvement Programme, access to superfast broadband remains elusive for many. Amongst Enterprise Northern Ireland's member organisations, the network of Local Enterprise Agencies, many complain that they do not have access to superfast broadband, despite being located adjacent to cabinets, or beside properties that do have it on the grounds that it is not considered financially viable to extend it. Enterprise Northern Ireland has been told that lack of high-speed broadband is having an impact on LEAs with some businesses located on workspace managed by the LEAs threatening to leave unless it is rolled out, as it is a necessity for their business going forward. Rural areas, which already find it difficult to attract foreign direct investment, are particularly badly affected. If this situation is replicated across Northern Ireland, it could be difficult to attract potential foreign investment, particularly very high and high added value FDI.

I trust that this submission will be of assistance to the Committee's deliberations, however, please do not hesitate to make contact if you require further information.

# Lisburn and Castlereagh City Council

## Written Submission

From: Hazel King [mailto:Hazel.King@lisburn.gov.uk]  
Sent: 10 March 2015 09:50  
To: +Comm ETI Public Email  
Subject: Lisburn & Castlereagh City Council Response - Corporation tax Consultation

Dear Sir/Madam

Please see attached response to the above consultation from Lisburn & Castlereagh City Council.

Regards

**Hazel King**

Economic Development Manager  
Lisburn City Council  
Tel: 02892509484  
Email: hazel.king@lisburn.gov.uk

### Committee for Enterprise, Trade and Investment

**Inquiry – “Growing the Economy and Creating Jobs with Lower Corporation Tax”**

**Question 1: What are the key economic drivers (other than low 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?**

**Response:**

The key economic drivers tend to be:

- Labour costs
- Skills base
- Transportation infrastructure
- Quality of life
- Proximity to markets
- Energy costs
- Central and local government support / prevailing political and economic climate
- Absence of bureaucracy and institutional barriers to trade
- Broadband and communications networks

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

**Response:**

All of the drivers listed are likely to be considered priorities for the manufacturing sector; it may be that some may be particularly significant for this sector e.g. energy costs will be extremely important for manufacturing processes that are energy intensive.

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**Question 3: Which of these key economic drivers are considered priorities for the services sector?****Response:**

As above, all the drivers are likely to be considered priorities for the services sector, but similarly to manufacturing some drivers will be more important than others e.g. the availability of skills, broadband and quality of life / environment drivers may be more important to an office based service orientated SME than energy costs.

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

Lisburn and Castlereagh City Council cannot comment on the rest of Northern Ireland, but in Lisburn and Castlereagh the economic drivers listed are well developed e.g. Lisburn and Castlereagh has the highest skills base in Northern Ireland.

**Question 5: What actions need to be taken, and by whom, to address any gaps in the priority economic drivers?****Response:**

Lisburn and Castlereagh City Council is keen to see further improvements in its road traffic network and in particular, has been lobbying government in general and Transport NI in particular regarding the public provisions of the Knockmore Sprucefield Link Road which would assist in making the City even more attractive to inward investment.

**Paul McCormick**

Assistant Director of Environmental Services (Economic Development)

# Newry, Mourne & Down District Council

## Written Submission

Further to correspondence from Jim McManus to Liam Hannaway on the above, find attached reply from Newry, Mourne & Down District Council.

Regards,

Jonathan McGilly | Assistant Director of District Development (Economic Regeneration)|  
Newry and Mourne District Council | Haughey House | Rampart Road |  
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[www.Facebook.com/RingofGullion](http://www.Facebook.com/RingofGullion)

### Newry Mourne & Down DC response to inquiry – Economic Growth & Job Creation

1. We believe the key economic drivers that the Executive can influence in order to maximise the potential of NI to attract inward investment, grow the economy and create jobs are:
  - Access to finance
  - Access to markets and suppliers
  - Business regulation
  - Communications infrastructure
  - Energy costs
  - Government support (financial and practical)
  - Education and skills
  - Innovation and R&D
  - Labour relations
  - Macro economic factors
  - Political climate
  - Public transport infrastructure and industry
2. Key Drivers that are priority for manufacturing sectors
  - Access to finance, markets and suppliers
  - Business regulations
  - Communications infrastructure
  - Transport infrastructure and networks

- Skills and education
- Political Climate
- Labour Relations
- Energy costs
- Labour costs

3. What are the key drivers for the service sectors?

- Business regulations
- Access to finance
- Communications infrastructure
- Government support
- Education
- Political climate
- Transport networks
- Skills & education

4. Many of the economic drivers are well developed in their own right, however the bigger issue for government is how they connect and join up. There is no doubt the devolution of corporation tax powers would have a significant impact on attracting FDI to the region, however the volume will be determined more by the world economy and how it is placed at any point in time.

Another key challenge for all stakeholders with a role to play in development of the economy and creation of jobs and growth is to ensure all work together. Those who deliver interventions must react to needs of investors. For example, we have a range of interventions around skills provision and education but is this meeting the needs of business?. Our experience from consulting with industry is that we could do better in this area to ensure industry has a pool of personnel with relevant skills to choose from. .

5. Each of the drivers have obvious licensed government agencies but the challenge is joining all this up to ensure we have priorities and clear actions with one entity taking responsibility to co-ordinate with community planning powers, local councils are well placed to coordinate on a sub regional basis as is the mechanism for much of our LED activity.

High speed broadband across the region is essential to assist business growth and develop through extension of voucher schemes. The availability of land and appropriate supporting infrastructure for new businesses is a major problem and the growth of small home grown businesses is being stifled. Indeed the lack of available sites outside of key urban centres is a barrier to investors.

The executive should prioritise the release of publicly held land assets for existing businesses to develop / expand and for new affordable business start up units.

The executive should ensure that there is a joint prioritisation of schemes and programmes within the new council boundaries.

There is a need for more business zones to be developed.

Continue to invest in the development of tourism events and activities across the NI developing tourism events which will spread tourism throughout NI by build on the work of Tourism Ireland and Failte Ireland and gain international appeal allowing visitors to experience different activities e.g. an annual All-Ireland Air show and St Patrick's Celebration to help develop quality of life in region for those coming to set up businesses.

# Federation of Small Businesses (NI)

## Written Submission

**Northern Ireland Policy Unit**

Cathedral Chambers  
143 Royal Avenue  
Belfast BT1 1FH

Telephone: 028 9032 6035



[www.fsb.org.uk/ni](http://www.fsb.org.uk/ni)

**Committee for Enterprise, Trade and Investment**

Northern Ireland Assembly  
Room 375, Parliament Buildings  
Stormont BT4 3XX

10 March 2015

Dear Sir/Madam

**Re: CETI Inquiry into Growing the Economy and Creating Jobs**

The Federation of Small Businesses is Northern Ireland's largest business organisation with around 7,000 members from across all sectors of industry, and over 200,000 members throughout the UK.

It exists to protect and promote the interests of the self-employed and all those who run their own business and we lobby decision-makers to create a better business environment for them.

We welcome the opportunity to input into the Committee for Enterprise, Trade and Investment Inquiry into Growing the Economy and Creating Jobs and trust you will find our comments helpful.

Yours faithfully,

**Wilfred Mitchell OBE**

Northern Ireland Policy Chairman



# FSB NI response to the CETI Inquiry into Growing the Economy and Creating Jobs

March 2015

## Introduction

The Federation of Small Businesses in Northern Ireland (FSB) welcomes the initiation of this Inquiry by the Committee for Enterprise, Trade and Investment. We view this as an important and necessary exercise to ensure that the best possible economic environment is created to maximise the benefits stemming from a lower rate of Corporation Tax.

The FSB fully supports the devolution of Corporation Tax setting powers to the Northern Ireland Assembly. We have been active as a standalone organisation in lobbying at the highest levels, including the Prime Minister and Chancellor of the Exchequer, and as part of the wider Grow NI group campaign which comprises a range of business representatives.

We firmly believe that the devolution and subsequent lowering of Corporation Tax will benefit the small business community in Northern Ireland.

According to the Secretary of State for NI, the scheme will directly affect an estimated 26,000 SMEs currently operating in Northern Ireland and that the resultant increased Foreign Direct Investment will lead to the creation of new local supply chains and contribute to a much needed rebalancing of the local economy.

It is pleasing that the Corporation Tax (Northern Ireland) Bill is currently proceeding through the legislative process at Westminster and we note the commencement clause which means that the powers will only be commenced from April 2017 subject to the Executive demonstrating that its finances are on a sustainable footing for the long term.

This allows a two year period to ensure that all possible levers within the Executive's power are being utilised to augment a lower level of Corporate tax with a view to growing the economy and creating jobs.

In our view this is a window of opportunity which cannot be missed.

## Key Economic Drivers

The FSB has identified a number of key economic drivers which we consider to be of priority importance for the Executive alongside a reduced rate of Corporation Tax.

These are set out under the headings of 'the costs of doing business', 'education and skills'; and 'access to finance'.

There are of course many other factors which contribute to successful economic policy and the issues outlined below are therefore not exhaustive. However, they do represent some of the main areas of concern for small businesses in Northern Ireland which are of most relevance to this inquiry.

### 1. Costs of doing business

#### **Energy Costs**

High and often volatile energy costs continue to exercise many in the business community. For example, the latest quarterly transparency report from the Utility Regulator, published in November 2014, outlines that electricity prices for the vast majority of non domestic customers in Northern Ireland are higher than those in the UK and the Republic of Ireland.<sup>1</sup>

Whilst we accept that very large users pay some of the highest costs in Europe, the reality is that the vast majority of businesses in Northern Ireland are micro and small businesses and they are often still paying above the EU and UK average. Therefore, we should guard against transferring costs onto smaller businesses that simply do not have the ability to pay.

There has been some recent good news with a number of announcements of price decreases, e.g. Power NI, and it is to be welcomed when energy providers pass on decreases in their costs to the end user. The Utility Regulator and DETI Energy Division should continue to monitor whether this is happening to the extent it should.

Despite the fact that some global factors are obviously outwith the power of the Executive, we would welcome DETI setting out a clear plan to mitigate high energy costs or at the very least outlining the potential policy options which are within their control in order to inform the debate around affordability.

Given the conclusions reached in the report by Cornwall Energy<sup>2</sup> which showed that there are very low (and declining) levels of switching both gas and electricity provider by small and micro businesses, affirmative action is required.

There is a need for more work around energy consumer education programmes and tariff comparison website/accreditation to improve transparency as well as making switching easier for small business consumers.

Northern Ireland is clearly behind the rest of Great Britain and Ireland in the roll-out of smart metering, and this is an area in which decisions have not yet been made. Obviously there are major resource implications in taking this policy forward but it would offer small businesses the potential to take more control of their energy consumption, increase their energy efficiency and reduce their costs. Further clarity on how this is expected to develop within a Northern Ireland context would be constructive. As a UK wide organisation we will continue to monitor how smart metering in GB impacts on our members.

The FSB continues to support the extension of the gas network, with good progress being made in the West of the province. However, a longer term approach is necessary, particularly with respect to the North West and East Down.

Extension of the gas network brings the potential of a variety of advantages to small businesses. We would call for training for small and micro businesses to take up the business opportunities that will become available, for example, for gas engineers and boiler installers, as well as consideration of business incentives to convert from heavy fuel oil/power to gas. In addition, this touches on the area of skills development (see below), and the need for the Assembly to ensure that there are adequate resources of skilled engineers in install the necessary infrastructure in particular, and the future skills needs of our economy as a whole.

The expedition of the North South Interconnector also remains a priority to ensure that security of supply is protected into the future – an issue which the Committee has looked at in detail previously during the inquiry into electricity prices and must remain firmly on the agenda.

### **Business Regulation**

Over one third of FSB members cite the regulatory burden as the biggest barrier to business, behind only cash flow problems and the recession. In a time when the Assembly has limited spending powers, cutting regulation is a resource efficient way of improving business productivity and competitiveness. Getting this right could help ensure the economic recovery and create jobs.

The FSB participated in the first Innovation Lab which was jointly hosted by the DETI and DFP to explore the Regulatory Impact Assessment (RIA) process.

The FSB was also a stakeholder in the recently published DETI Review of Business Red Tape NI. We welcomed much of the subsequent report<sup>3</sup> and look forward to implementation of the recommendations.

Looking ahead, particular focus should be on the adoption of a regulatory budget scheme to manage the flow of regulations as well as improvements to how RIAs are conducted.

### **Non Domestic Rates**

Non Domestic Rates are one of the highest cost elements for FSB members and it is widely accepted that they impact disproportionately on small businesses with some paying more in rates than rent.

This is a challenging time for small businesses as they face uncertainty over the long term future of the Small Business Rate Relief scheme, potential rates hikes through rates convergence as a result of the amalgamation of council areas, and many also face sometimes significant potential increases as a result of the rates revaluation process.

This uncertainty around long term rates bills hits consumer confidence and has a knock on effect on business decisions around investment and expansion. The FSB believes that the planned review of Non Domestic Rates by the Minister of Finance and Personnel presents a real opportunity to fundamentally reform what is an archaic rating system.

As a minimum requirement the system must be simplified with more regular revaluations carried out.

However, there is also scope to look at how the smallest businesses could be exempted from Non Domestic Rates altogether as well as how the increasing number of home workers can be supported through the rating system.

The rise of online retailing in competition with the high street must also be included within the scope of the review.

Our research<sup>4</sup> also indicates that the Small Business Rate Relief scheme has been of real benefit to small businesses across Northern Ireland, including helping them to stay in business as well as invest in a range of areas. We therefore strongly advocate a scheme of this nature continuing into the future to offer support to small businesses.

With regards to industrial de-rating, the FSB view the continuation of a 30% liability cap on manufacturing rates as offering a unique and invaluable form of assistance to one of Northern Ireland's key sectors, which should be retained.

### **Employment Law**

The FSB welcomes the recent review of employment law which has been carried out by the Minister for Employment and Learning, and we were pleased to be part of the Review Group established by the Minister. However, we are disappointed that the necessary legislation to enact changes has yet to be brought to the Assembly.

An Early Conciliation Scheme and Neutral Assessment Service are examples of proposals which have the broad support of the business community and should be established as soon as possible.

However, our members would still like to see an extension of the qualifying period for unfair dismissal from one year to two years. Whilst we understand that this will not be taken forward as a result of the review, we remain convinced that there is certainly merit in this change, as evidenced in Great Britain.

The introduction of tribunal fees, albeit in our view at a lower level than in England, should also be examined further and considered as a means to weed out weak or vexatious claims.

These can often have a profoundly negative effect on smaller businesses. They would also encourage mediation and the negotiated settlement of disputes rather than resorting to a tribunal hearing.

### **Planning**

As planning powers pass to the new councils, it is imperative that the process is smooth, clear, timely, and efficient and offers good value for money. It is equally important that there is consistency in the process both within councils and across all councils, so that we do not find some businesses in certain areas being hampered by partial or skewed interpretation of the policy.

In addition to the standard application fees and professional services fees when applying for planning permission, small businesses often incur further costs during the process. These costs include the time spent by the owner/employees of the business in preparing an application, as well as costs which frequently arise in the course of an application process.

For example, the FSB has concerns regarding the costs and impacts of Environmental Impact Assessments and believes that there could be a lack of consistency of these assessments when they are devolved to local authorities. If there is a requirement to produce an EIA, their relevance should be specified to the business applicant and there should be minimal burden and costs on businesses.

As with other business processes, small businesses by their nature employ very few people and therefore those running the business are responsible for all aspects of its day to day operation, trading and regulatory administration.

Therefore, the burden of applying for planning permission and managing the process has a direct correlation in the running of the business, and because of this the impact should be minimised to help rather than hinder business prospects.

### **Business Support**

The NI Assembly must put small businesses at the heart of policymaking, and create a coherent long-term plan for business support, including export support that matches the ambition of start-ups and those small firms that want to grow. The goal should be to create an environment in which NI encourages and supports start-ups to become 'world-beating' firms.

An FGS McClure Watters Audit of Enterprise Support conducted for Invest NI in 2008 identified over 200 separate sources of available advice or support. A small business with fewer than 10 employees cannot realistically access all of these sources to identify what is most appropriate for their individual business needs.

The report highlighted that regulation and administration have a disproportionate impact on small businesses in terms of people, time and money, often resulting in discouraging entrepreneurs from employing people or from expanding. Rather, support services should be enabling businesses to reduce bureaucratic workloads and delays as opposed to adding to them.

We therefore recommend the creation of a NI Small Business Administration (SBA), a department or agency which would will replicate the US Small Business Administration and solely focus on small businesses. The SBA in the US has been instrumental in reducing the burdens on small businesses by both advocating small business needs and acting as an ombudsman when problems arise with federal agencies. A NI SBA would ensure that the voice of small enterprise doesn't become lost among competing government priorities, and rationalise the number of small business initiatives in place and thereby deliver policies better aimed at small businesses.

The FSB also advocates the need for a network of small business friendly drop-in centres across Northern Ireland. Small Business Advice Centres would enable small businesses to call in, in person or by telephone, and obtain advice on a wide variety of issues, including business support, training and skills, innovation, R&D, exporting, employment, workplace disputes mediation, finance and procurement etc. Centres could act as the hub for promoting sources of advice and support that are available, signposting to current provision and relevant schemes and gather information on take-up and demand.

## 2. Skills and Education

### **Apprenticeships and Youth Training**

As the largest business organisation in Northern Ireland we have been involved from the outset of the reviews into the systems of apprenticeships and youth training, including membership of the expert panels on each.

The FSB is pleased with the progress made to date on apprenticeships with the new strategy<sup>5</sup> setting the direction for a system with an improved image, which more effectively matches skills to the demand of the economy, and allows for progression right up to level 8.

The new Central Service will also usefully support, market and promote apprenticeships for both employers and participants, including the establishment of an online portal. However, it is imperative that the right financial support is available for businesses who are considering taking on an apprentice.

Whilst we acknowledge that the strategy outlines that a new funding model offering support to small and micro firms is due to be in place by September 2016, the FSB would accentuate the point that better financial incentives for employers are a core requirement to the success of apprenticeships into the future.

### **Further and Higher Education Budgets**

The recent deliberations over the 2015/16 Assembly budget produced a substantial amount of debate over the proposed initial budgets reductions to the Department of Employment and Learning and the likely impact on Further and Higher Education institutions.

At the time, the FSB expressed significant concerns as to whether DEL could continue to meet its Departmental responsibilities by investing sufficiently in skills to match the needs of the economy.

Looking ahead to future budgets, fiscal constraint looks set to continue regardless of the makeup of a Westminster Government. As this filters through to Northern Ireland we would call on the Executive to continue to invest in the up-skilling and re-skilling of the current and future labour force, which must be realised if we are to remain an attractive investment location and rebalance our local economy.

### **Links between business and education**

Local schools need to better harness the expertise of small business as too few small businesses are actually contacted by local schools to sit on governing bodies, be a mentor, help with careers advice or talk about apprenticeships in schools.

Furthermore, the curriculum should place greater emphasis on employability skills and work-related learning. School leavers must be better prepared for the workplace and apprenticeships should be better promoted in schools.

## Access to Finance

### **Statistical transparency**

Access to finance is vital for businesses, particularly those seeking to expand.<sup>6</sup> The ongoing production of lending statistics by the British Bankers Association is certainly welcome. However, despite the fact that these statistics show some progress in new approved borrowing figures as well as approval rates<sup>7</sup>, there is still work to do. The FSB is keen to see more developed statistics including, for example, the provision of finance to start-ups.

### **Banking services for small businesses**

Small businesses often find themselves worse off in comparison with other banking customers and we believe there is clear evidence that they can receive an inferior service. For example, small businesses pay the same fees as bigger firms yet they do not have the access to the relationship managers which those firms get. Nor are they afforded the benefit of buffer zones (being slightly overdrawn without paying a fee) or grace periods (during which time no late fees will be charged) which are associated with the mass market.

These concerns appear to be supported by the initial findings of the Office of Fair Trading (OFT), whose analysis<sup>8</sup> suggests that as a consequence of competition not working properly there may be a reduced incentive for providers to compete on price and terms, invest in service quality and delivery or innovate, which may mean SME's do not get the best deal from their banking provider.

### **Branch Structure**

The closure of bank branches throughout Northern Ireland is a continuing and worrying trend. The FSB would warn against the associated diminution in service which may accompany the lack of bricks and mortar establishments, particularly for cash intensive and rural businesses.

Whilst we accept that there has been a shift towards online banking and fewer people are frequenting local branches, our research shows that business owners still value the accessibility of a convenient branch location with reliable staff.<sup>9</sup>

### **Lack of competition and alternative financing**

Northern Ireland has a specific banking structure distinct from the rest of the United Kingdom. Here, the 'big four' are Danske Bank, Ulster Bank, First Trust and Bank of Ireland. These four banks currently hold over 90% of the stock of the business current account market – a greater share of the market than the four largest providers in GB have.

Whilst newer entrants from mainland UK are picking up a higher proportion of new accounts opening each year, the four main banks still hold the vast majority of the business current account market share in Northern Ireland.

Traditional bank finance is also estimated to make up 95% of all finance provided to NI SMEs<sup>10</sup> and these smaller firms do find it difficult to differentiate between providers. Similar to the situation on energy as described above, there are low level of shopping around and switching.

Increased awareness, and uptake, of alternative financing options is one means of increasing competition in this field<sup>11</sup> and how to encourage more challenger banks to develop in Northern Ireland should also be explored.

### **Conclusion**

The Executive has many economic tools at its disposal and despite the challenges it faces, it is vital that the opportunity to augment a low Corporation Tax rate through implementation of a range of other policy levers is not lost.

Evidently, the cost of doing business is the central concern for businesses going forward. The imminent work from the Ulster University Centre for Economic Policy will be of particular interest. There must be a concerted effort across Government Departments, and in local Councils, to tackle this and make Northern Ireland an attractive place to invest in and do business.

The availability of skilled workers is often cited as one of the features of the economy here and further investment in education and skills will cement and enhance that. There is little point in marketing Northern Ireland on the global stage as a low cost environment to set up a business without having the indigenous skills base in place to back that up.

In terms of access to finance, we believe the correct forum for all the issues referenced to be considered is within the context of the Joint Ministerial Taskforce on Banking and Access to Finance. Whilst much work has been done in this area by academic, economists, business organisations and others, we must begin to see more tangible evidence of improvement. It is one of the most important factors in securing a long term economic recovery.

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- 11 FSB 'ALT + Finance, Small firms and access to finance' report, March 2012

## Ulster University Written Submission

Please find attached a submission to the Committee Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment on behalf of Ulster University.

If the Committee would like any further information, please contact me using the details below.

With best wishes,

**Claire-Anne**

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## Ulster University submission to the Committee for Enterprise, Trade and Investment Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax

### 1. Introduction

- 1.1 Ulster University is an institution with a national and international reputation for excellence in higher education, innovation and engagement with business and industry.
- 1.2 Ulster University is a pioneering, forward-looking institution with the unambiguous aim of working in partnership to promote the economic, social and cultural development of Northern Ireland and the promotion of the region internationally.
- 1.3 With campuses in Greater Belfast, Coleraine and Derry~Londonderry, Ulster University contributes significantly to sub-regional development.
- 1.4 Ulster University has a proven commitment to, and achievement in, widening access to higher education and thereby promoting economic and social inclusion.
- 1.5 The University works in partnership with, for example, Invest NI to attract Foreign Direct Investment to Northern Ireland through its research capacity, high quality graduates, international partnership networks, commitment to innovation, and close engagement with the business world.
- 1.6 The focus of this inquiry is to examine how best to maximising the potential of Northern Ireland as a region to attract investment, grow businesses and create jobs across the region, particularly in advance of the devolution of power to vary the rate of corporation tax.
- 1.7 Ulster University believe that this cannot be achieved without the skills development and training of our young people to be able to both attract and retain investment from local and global companies and ultimately to secure these roles for themselves.
- 1.8 Therefore, investment in and support for higher education will be the critical factor in ensuring that Northern Ireland is able to successfully rebalance and grow its economy.

### 2. Higher education as key economic driver

- 2.1 Recent reports by Universities UK<sup>1</sup> highlight that higher education is worth £1.5 billion to the local economy per year, creating over 18,000 jobs.
- 2.2 Ulster University alone employs over 3,000 people in Northern Ireland, delivering £112 million annually in salaries to the local economy and a further £15m through the local supply chain.
- 2.3 Ulster University works with NI business, offering a number of services that can help improve productivity, efficiency and competitiveness. During 2014, the University delivered more

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1 The Economic Impact of Ulster University on the Northern Ireland Economy and The Economic Impact of Queen's University on the Northern Ireland Economy

than 50,000 days of management training and provided over 1,000 innovative solutions to companies, working to help them reach their full economic potential.

- 2.4 Over the past five years, 18 new spin out companies have been established with support from Ulster University, with an estimated turnover of £26.5 million and currently employing 229 staff. In 2014 alone, four new companies were created and five technologies were licensed for global use.
- 2.5 Ulster University graduates are highly sought after as our degrees are structured to maximise the employability of our students. The skilled and talented local graduate workforce is one of the most compelling aspects of Northern Ireland's investment proposition.
- 2.6 Recent announcements of investment and job creation, with the support of Invest NI, by companies including Kainos, Citi, Allen and Overy and Rapid7 have all stated that graduate skills are the key factor in securing their investment here.
- 2.7 Having a strong pipeline of highly qualified graduates, supported by thriving higher education institutions, is critical to growing the economy and creating jobs and investment.

### 3. Ulster University contribution to economic growth and job creation

- 3.1 For higher education to effectively contribute to economic growth, it must be responsive to the needs of industry. Ulster University works closely with business and industry representative to guide the formation of new courses, updating of existing courses and shaping our research agenda, ensuring skilled, work ready graduates are developed.
- 3.2 This work is also closely aligned to the areas targeted in the Economic Strategy as having the greatest potential for economic growth.
- 3.3 In Life and Health Sciences, Ulster University has established a partnership with the local medical research industry that will place Northern Ireland at the forefront of research into Stratified Medicine. The industry liaison committee includes representatives of international healthcare companies based in Northern Ireland, which have strong research capability including Almac, Randox and Aridhia Informatics. The committee is helping to shape the relevance of research and collaborations undertaken by the centre, as well as contribute to the development of new courses delivered by the University on stratified medicine. This collaboration is ensuring our students will graduate with the skills needed by local employers, as well as allowing the University to truly enhance health provision and realise the full economic benefits of stratified medicine research, particularly in terms of our ability to attract inward investment in this sector.
- 3.4 In terms of new courses responding to industry need, the University recently launched new courses in Mechanical and Manufacturing Engineering and in Renewable Energy, to allow students to take advantage of the growing engineering sector. The University works with some of the most successful, high growth companies in Northern Ireland such as B/E Aerospace, Kilkeel, Intelesens Ltd, Belfast and Elite Electronic Systems, Enniskillen to showcase the skills of our students. As well as boosting their career prospects, the relationship with such companies ensures we develop students with essential, relevant, industry ready skills.
- 3.5 Ulster University works in partnership with a range of industries across Northern Ireland through initiatives such as the Northern Ireland Connected Health Innovation Centre and the Capital Markets Collaborative Network. The Network aims to position Northern Ireland as a global centre of excellence for research and development in Capital Markets Engineering and as a priority for Foreign Direct Investment in this sector.
- 3.6 Despite the economic challenges of recent years, one of the success stories for Northern Ireland has been the continued growth of the Creative Industries. The UK's creative industries are now worth £71.4 billion per year to the UK economy, or £8million per hour. It has

outperformed all other sectors in the economy, growing at 3 times the average growth rate for the economy.

- 3.7 This can be seen no more obviously than in Northern Ireland, where Ulster University provides the vast majority of creative graduates into the visual and applied arts and design professions, the backbone of the industry. 3.8 Graduates fluent in modern languages play an important part in Northern Ireland's attractiveness for direct foreign investment, and our credentials and leadership in teaching Chinese responds to the opportunity presented by the world's fastest growing economy. Ulster University underpins the talent required for the new emerging industries locally, and ensures we are ready to meet the demands of the international marketplace.

#### 4. Risks to higher education as an economic driver

- 4.1 The single biggest risk to the impact of higher education as economic driver is the reduced investment in the sector.
- 4.2 Over the past four years, Ulster University has had to absorb significant cuts as our budget has been reduced by 14% as part of the 2010 Comprehensive Spending Review.
- 4.3 In addition to this, the University is also currently putting into effect an in year cut of 3.95%, or £3.15 million.
- 4.4 This means that already, universities in Northern Ireland including Ulster University are underfunded when compared to institutions in other regions of the UK by between £1,000 and £2,500 per student, per year, depending on the area of study.
- 4.5 The Northern Ireland Executive Budget for 2015/16 will see a further cut in public funding and the only way to deal with this whilst maintaining the quality of provision is by reducing the number of student places.
- 4.6 This will have a number of consequences, including an increase in students leaving Northern Ireland to study at universities in other regions of the UK.
- 4.7 Ulster University believes this will place local students who would have preferred to study in Northern Ireland at a significant disadvantage. They will be forced to go to other regions of the UK for a university education where they face significantly higher tuition fees than they would have expected to pay if studying here.
- 4.8 Furthermore, evidence from the Department for Employment and Learning indicates that only two in five of those who go to GB to study choose to return to Northern Ireland to work after they graduate, compared to nine of ten students who remain after they graduate from local institutions.
- 4.9 The number of students who choose to remain in GB after they complete their studies is likely to sharply increase if the proposed cuts become a reality.
- 4.10 Students who cannot secure a place at Northern Ireland universities and who are reluctant to or cannot move to other areas of the UK to study, may be forced to forego a university education altogether.
- 4.11 All of these factors pose a very real and very serious risk to the pipeline that will be available to attract and retain Foreign Direct Investment. With fewer highly skilled, work ready graduates, Northern Ireland's investment proposition will be severely undermined.
- 4.12 Northern Ireland may not be in a position to take advantage of any future reduction in the rate of corporation tax if we cannot provide the number of skilled graduates to attract investment and secure jobs created as a result.

## 5. Conclusions

- 5.1 At this critical time for the Northern Ireland economy, the role of higher education has never been more important.
- 5.2 Our skilled and talented local graduate workforce is one of the most compelling aspects of Northern Ireland's investment proposition but reduced investment in higher education has the potential to severely undermine it.
- 5.3 To address this gap, investment in higher education must be prioritised as a matter of urgency. The current structure for funding higher education is unsustainable and will not be able to support the realisation of the benefits that the power to vary the rate of corporation tax will bring.
- 5.4 The wider strategic importance of higher education cannot and should not be underestimated. Having a well-rounded investment proposition, growing the economy successfully and sustainably and creating jobs is entirely dependent on a developing a skilled workforce.

**Ulster University**

10 March 2015

# Fermanagh and Omagh District Council

## Written Submission



**Brendan Hegarty Chief Executive**

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Your Ref:

Our Ref:

Date: 11 March 2015

Being dealt with by: Alison McCullagh

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Mr Jim McManus  
Clerk to the Committee for Enterprise, Trade and Investment  
Northern Ireland Assembly  
Room 375, Parliament Buildings  
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Dear Mr McManus

Fermanagh and Omagh District Council welcomes the opportunity to respond to the Committee for Enterprise, Trade and Investment's inquiry into growing the economy and creating jobs within a lower corporation tax regime.

As Committee Members may be aware, Fermanagh and Omagh District Council covers the largest geographic area of the new Councils, but has the smallest population. In terms of business and economic enterprise, our Council area has a particular concentration of micro and small businesses which complement the activity of larger scale employers and industry. Given the reliance of the Northern Ireland economy on micro and SMEs, the Council would recommend that consideration is given to providing specific supports to this sector, to alleviate any new burdens which may arise as a result of a reduction in corporation tax.

The Council is concerned that to date, the apparent focus on the devolution of corporation tax to the Assembly, is that city regions, most notably Belfast will benefit. Fermanagh and Omagh District Council would wish to ensure that there is a formal Assembly commitment to balanced economic and regional development resulting from a lower corporation tax regime. The Council would therefore recommend that formal, binding commitments are put in place to ensure all areas of Northern Ireland can benefit equally from any reduction in corporation tax.

Specifically, the Council would propose that the Committee seeks to secure an Executive commitment that it will work to ensure an equal spread of jobs as a result of any reduction in corporation tax.

No consideration seems to have been given to rural areas and there is uncertainty as to whether the initiative has been rural proofed. Due to the critical mass of the companies which are most likely to benefit from a reduced corporation tax, there is a greater likelihood that they will choose not to invest in rural areas, and as such, there is an ongoing potential that

a reduction in corporation tax will have an adverse impact on rural areas. The Committee should seek to ensure that a specific action plan to assist rural areas benefit from any reduction in corporation tax is put in place.

The Council would wish to highlight its border location and notes the potential for this location to be favourable to investors. The potential of enterprise zones across Northern Ireland and including the border area, was previously highlighted, and it may be timely to reconsider this in the context of a reduced corporation tax environment.

The Committee has also requested that consideration be given to the key drivers for economic growth and has specifically referenced the Telecommunications and ICT sector. Regrettably, and in spite of previous assurances, the Fermanagh and Omagh District Council area does not enjoy appropriate telecommunications or ICT infrastructure, with large sections of the district unable to avail of broadband or even secure a reliable mobile phone signal. If the Committee and the Assembly are serious about promoting economic growth and investment, it must ensure that all areas have the same access to the required telecommunications and ICT infrastructure.

The Council would therefore recommend that the Committee seeks a formal update from the Executive as to how the infrastructure deficit in the Fermanagh and Omagh area will be addressed to enable our district to become more attractive to investors and therefore benefit from a reduction in corporation tax.

Fermanagh and Omagh District Council trusts the Committee will take these comments into account in its deliberations. The Council is also willing to provide further information or evidence if required.

Yours sincerely



**Alison McCullagh**

Director of Regeneration and Planning

# Confederation of British Industry Written Submission



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CBI NORTHERN IRELAND RESPONSE TO ETI COMMITTEE INQUIRY – GROWING THE ECONOMY AND CREATING JOBS WITH LOWER CORPORATION TAX (PREPARING FOR THE DEVOLUTION OF CORPORATION TAX VARYING POWERS)

## Executive summary – the key actions required

### The Strategic Challenge

- **Setting a ‘date and rate’ and developing an effective marketing strategy** – no later than the formation of the next UK Government. This will give Invest NI the time and opportunity to market the rate both internally and externally as well as show to the UK Government that the Executive is serious about delivering sustainable public finances. An effective marketing campaign targeting potential investors is essential.
- **Strong, united political leadership** - crucial to show that Northern Ireland is a politically stable and economically ambitious place in which you can do business. This should also include a clear and unambiguous focus on delivering a truly shared future and creating an environment to attract and retain the talent necessary to transform the Northern Ireland economy. The Executive must also focus on tackling fewer, but important, challenges.
- **Ending the silo mentality within government** - the now agreed reform of government departments must enable a more strategic, joined-up government if we are to get the policy landscape properly aligned to meet the needs of indigenous and new global investors and ensuring we have an integrated economic strategy that embraces all Departments.
- **Raising the ambitions and aspirations of our society to ensure we deliver 35,000-40,000 additional jobs over the next 20 years** – the need for an internal communications strategy.

### The Policy Challenge

#### Education and Skills – realignment with the needs of economy

- **Speedy implementation of the recommendations of the Independent Review of Careers Advice and Guidance – published December 2014** – this is absolutely critical and urgent

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to improve the realignment of our education and skills system with economic needs. The new 'Skills Barometer' should improve labour market forecasting

- **Critical that we continue to prioritise investment into our higher and further education systems** – most notably delivering a sustainable and competitive funding model for our universities – without a significant increase in core funding this will require early agreement by the Executive on increasing tuition fees.
- **All schools to offer separate sciences as an option for GCSE, and faster progress on implementing computing as a core subject** – to meet the increasing demand for STEM subjects.
- **Delivering the new employer-led apprenticeship model in 2016** – with businesses in the driving seat and incentivised to over-train where skills demands require it.
- **A statutory requirement for all young people at key stage 4 and 5 to undertake work experience** – to improve their employability
- **The study of maths and English should be made compulsory until 18 for all those remaining in education.**
- **Greater employer involvement in careers provision for young people** - to inspire students about career possibilities, with a particular focus on getting more young people, particularly women, into STEM.
- **Businesses should encourage their employees to act as school governors** - to bring high-quality and relevant skills to a key function
- **Schools and colleges must be better incentivised to build links with employers** - through a sharper focus in Education and Training Inspectorate evaluations and the introduction of destination measures

#### **Infrastructure – investing in key infrastructure to improve connectivity**

- **The next Investment Strategy** – prioritise a series of projects that business sees as investment critical such as the Strategic Road Network including York Street Interchange and the A6 and A5, and the Second North/South Interconnector.
- **Infrastructure procurement and delivery reform** - an implementation plan was presented to the Executive's Sub Group on Infrastructure last summer and it is now crucial that all parties in the Executive buy into its principles and sign up to its potential outcomes immediately.
- **The Northern Ireland Investment Fund** - deliver on its potential and make its first investments by the summer of 2016.

#### **Improving The Broader Business Environment**

There needs to be an ongoing focus on improving the regulatory environment to ensure that investment is stimulated and companies are encouraged to increase employment.

- **We need to ensure the planning system provides certainty and that planning decisions are taken in a speedy manner**
- **We need to ensure we have an Employment Law framework which supports a flexible labour market**
- **We believe that continued UK membership of a reformed European Union is in the best interests of our long-term future and maximising global investment in Northern Ireland**
- **Strategic and fundamental public service reform is required over the coming years to improve outcomes at lower cost and to deliver sustainable public finances**



## Introduction – the key factors influencing investment

The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the UK business voice around the world.

Dating back to June 2011, when we made our submission to the Treasury's consultation paper on Rebalancing the Northern Ireland Economy, we have made clear, and maintained throughout that: *"A low and competitive headline Corporation Tax (CT) rate will be vitally important to encouraging investment...strong evidence exists that CT rates are a key factor in attracting investment. It is also recognised that other factors, notably skills, infrastructure provision, innovation and planning must also be addressed as part of an integrated package to transform the Northern Ireland economy"*.

Within this context, and given the hugely welcome decision by the UK Government to introduce the Corporation Tax (Northern Ireland) Bill in January as a result of the Stormont House Agreement and the progress on key matters therein, the Committee's inquiry is a very positive development. It is vital that the Northern Ireland Executive urgently develops a strategy to maximise the impact of lowering Corporation Tax levels in order to stimulate investment and to maximise the level of job creation and the impact across our community.

The key determinants of investment are well known. The CBI/Deloitte research undertaken for the CBI Annual Conference in 2010 on the UK as a place to Invest provides valuable evidence about the key determinants which FTSE 350 companies and their foreign-owned equivalents use to assess potential investment locations. These results are summarised in the Annex as Table 1 together with the results of DETI research completed in 2011. Most recently, in their report on Air Connectivity in Northern Ireland, the Ulster University Economic Policy Centre identified four essential factors when making FDI decisions:

- **Easy access to markets, customers or clients**
- **Availability of qualified staff**
- **Quality of telecommunication**
- **Transport links with other cities and internationally**

It is clear that maximising the impact of a lower Corporation Tax rate and creating the 40,000 additional jobs will require a focus on a number of key factors – these are addressed in this submission under two broad headings:

### **Strategic Challenges**

- Setting a 'date and rate' at an early opportunity, combined with an effective marketing campaign.
- Strong, united political leadership – with an ongoing commitment to the economy, a focus on key strategic issues and delivery of a 'shared future'.
- Ending the silo mentality within government and creating a truly strategic and joined-up approach.
- Raising the ambition and aspirations of our society to ensure we deliver on the 40,000 additional jobs.

### **Policy Challenges**

- Education and skills and ensuring their alignment with the economic opportunities.
- Infrastructure/connectivity – essential to enhance our competitiveness.
- Continued improvement in other regulatory areas: including in planning performance, employment legislation and energy markets.

These are discussed in subsequent pages. However it is of course not for the Executive and Invest NI alone to deliver the potential that a lower CT rate presents. Business must step up to the plate through committing to invest more in growing their businesses, getting more involved in providing careers advice and guidance in our schools, through delivering further training and opportunities for our young people and workforce more generally and pursuing even greater levels of activity in the local community as a means of detailing our contribution to wider society. Business must also market the opportunities presented by a lower CT rate within the business community itself.

Fundamentally, making the most out of a lower CT rate is something that business cannot wait for the Executive to take the lead on. This must be a collaborative effort to realise the potential that is undoubtedly within our grasp.

To ensure a comprehensive response we have included at the end of the submission references to recent key CBI reports that address in more detail many of the key issues we highlight in this submission. We would be happy to discuss this submission (and those additional reports as noted) as part of an oral evidence session with the Committee.

## **The Strategic Challenge**

### **Setting a 'date and rate' and developing an effective marketing strategy**

While the introduction and progression of the Corporation Tax devolution Bill in Parliament is hugely welcome and significant there remain several key actions that the Northern Ireland Executive must speedily take – both before the Bill becomes an Act and thereafter.

The later step obviously refers to the need for the introduction of legislation into the Assembly in the new financial year to give effect to the power transfer but, in the intervening period, it is the view of the business community that the Executive must now state when it plans to make use of the powers and to what level the headline CT rate would be reduced to – and critically they need to provide certainty that the lower rate will exist for a minimum period of 10 years. An early decision provides an opportunity to sell the investment case early and to have new, high quality jobs on the ground by 2017.

We know that the earliest the rate could be lowered is April 2017 but, so to enable Invest NI to begin to develop an effective internal and external marketing plan to potential investors on the promise of a lower rate and to afford both foreign and indigenous companies the opportunity to develop their future investment plans, the Executive should speedily take the step to outline their plans for rate reduction.

This submission will go on to detail how, in our view, the reduction in the headline CT rate could be offset in public expenditure reductions as per the devolution Bill formula that has been agreed, but a clear statement of intent is now vital. Once this has been agreed the Executive needs to develop an effective marketing campaign focused at international investors, selling the benefits from investment in Northern Ireland, addressing perceptions, and using a range of 'ambassadors' from across different sectors to champion the opportunities.

Affordability is obviously a critical test for the Executive to be able to handle the initial reduction in public expenditure but just as critical is the continued united leadership that the Executive has so far provided to date on the CT subject – and agreeing and publicising in the

near term its 'date and rate' policy is in our view crucial to maximising the opportunity that now presents itself.

#### **Key actions**

- **A 'date and rate' should be set by the Executive at the earliest opportunity – and no later than the formation of the next UK Government.** This will give political leaders and Invest NI the time and opportunity to market the rate both internally and externally as well as show to the UK Government that the Executive is serious about delivering sustainable public finances.
- **Development of an effective marketing campaign focused at key potential global investors as soon as the 'date and rate' are agreed**
- **Set out a clear, realistic plan as to how a lower rate of Corporation Tax will be paid for out of the Block Grant** – this should be completed with due cognisance given to the next UK Government's Comprehensive Spending Review which is due to be published by late summer. This will be incorporated within the Northern Ireland Executive's next Programme for Government.

#### **Strong, united political leadership – with an ongoing commitment to the economy**

Aligned to the need for an early 'date and rate' statement, it is important that the Executive continues to exhibit strong, united political leadership on CT devolution and other economic matters. The unity of purpose that the five Executive parties have showed throughout the period since the Coalition Government came to power at Westminster in 2010 was a key enabler towards the UK Government making its positive decision to devolve the powers. That united leadership, also seen to be crucial on numerous trade missions conducted by Executive Ministers in recent years, is a major influencer of any business' investment intentions with a stable political environment being something that any business of any size will take into account before making a positive choice.

Taking forward the outcomes of the Stormont House Agreement and delivering on its many facets is something that the business community locally wishes to see – but the Executive must also retain at the front of its minds that that same delivery will be important to show those potential foreign direct investors that Northern Ireland is a politically stable and economically ambitious place in which you can do business.

The Executive should also maintain a clear and unambiguous focus on delivering a shared future. Creating a broader and deeper societal cohesion is critical to making the most out of Northern Ireland's potential and ensuring Northern Ireland's attractiveness both in retaining and attracting talent is to the fore – the Executive's united leadership in this regard will be crucial.

With the restructuring of Government Departments recently agreed there is an opportunity for the Northern Ireland Executive to focus on successfully tackling fewer, but important challenges.

#### **Key actions**

- **Strong, united political leadership** – on an ongoing basis it is crucial to show that Northern Ireland is a politically stable and economically ambitious place in which you can do business. This should also include a clear and unambiguous focus on delivering a truly shared future to be reflected in the next Programme for Government.

### **Ending the silo mentality within government**

As we detailed at length in our submission to the Executive's draft Budget consultation in December we retain a significant concern in respect of the ongoing silo mentality within government policy and actions. While, perhaps most notably in the final Budget outcomes for DEL and DETI, this was somewhat rectified there remains a perception and, indeed, reality

that the Executive fails to consistently unify on key decisions and properly align various issues, their inputs and outcomes, across the various government departments that are involved.

Getting the policy landscape right to make the most out of a lower CT rate, on subjects like education and skills and infrastructure prioritisation and development, will be a major task over the coming two years and beyond.

The now agreed reform of government departments - a significant outcome of the Stormont House Agreement - is therefore a clear opportunity for the Executive to recast policy development in a more collaborative manner – and we would be strongly in support of this. There is also significant scope around other key Departments, which are a significant part of the NI Executive's budget, to seek more joined-up solutions and improved outcomes eg in health.

#### **Key action**

- **The agreed reform of government departments must deliver a more strategic, joined-up government** if we are to get the policy landscape properly aligned to meet the needs of indigenous and potential foreign investors. However the next Programme for Government and associated budget agreements, including an integrated economic strategy, must reflect this strategic approach.

## **Raising the ambitions and aspirations of our society to ensure we deliver 35,000 -40,000 additional jobs over the next 20 years**

A lower Corporation Tax rate combined with other changes outlined in this submission have the potential to transform our economy and create around 40,000 additional jobs over the next 20 years. Achieving this goal will not happen without a clear strategy and an understanding within the business community and wider society of the implications and opportunities created through this transformation. This will require an effective communications plan within Northern Ireland to explain what this means – what sort of jobs are likely to be created, the types of skills and experience that will be required and the nature of the infrastructure required to facilitate the levels of investment envisaged. A key goal of lower CT will be to create more high quality career opportunities for our young people, reducing the 'export' of our young people from Northern Ireland while also attracting back many of those that have already left.

#### **Key action**

- **Communicate to the public the implications and opportunities created by lowering Corporation Tax.**

## **The Policy Challenge**

### **Priority One - Education and skills – realigning education/training with the needs of the economy**

It goes without saying that getting all the various strands of our education and skills system aligned to the principles business has outlined is no small challenge. However this challenge, given the importance that potential investors put on a well skilled, trained, rigorous, rounded and grounded workforce is one that the Executive must take up. Progress is undoubtedly being made, but there must now be a relentless focus on the aspirations and goals we have laid out.

Outside of having a competitive taxation regime, the education and skills level of any given workforce is perhaps the most critical factor towards determining the investment intentions of firms worldwide – certainly the evidence from existing FDI in Northern Ireland, clearly

articulated at the Investment Conference in Belfast in October 2013 was the importance of the availability of appropriate talent. There is still too much mis-alignment between the likely demands of investors in terms of the skills they require and the choices our young people are making.

There is also a clear and unambiguous need to foster greater opportunities for those within our most disadvantaged areas. Getting education right and having an agreed purpose for educational outcomes will do much to significantly alter the life chances of our young people in these areas.

Within this context, we published a major new education report, *Step Change*, in December 2014. This report finds that there is much to be proud of in the education system, and reforms are heading in the right direction, but a lack of focus on outcomes we all want – progression and success in work and life – means too many are still being left behind.

The report sets out the business vision of what is needed to enable Northern Ireland to compete in an increasingly competitive global economy. *Step Change* argues that raising education standards in Northern Ireland is an economic and social imperative and that the school and college system must better prepare young people for life outside the school gates.

From the perspective of business, when recruiting young people, firms look above all else for the right attitudes and behaviours – for example,

- 85% of firms in Northern Ireland rate attitudes to work as the most important factor they consider when recruiting school and college leavers - and this should be a key focus of our schools and colleges.
- Our young people need to learn resilience, enthusiasm, curiosity and creativity. These are the traits that will help them get ahead in work and life, and these should be the outcomes our education system drives towards – alongside academic progress.

Businesses recognise the vital importance of education if we are to be globally competitive and attract more inward investment, and stand ready to play their part. To maximise the impact of lower Corporation tax and provide our young people with the opportunities they deserve changes are required over the next few years:

- **Greater employer involvement in careers provision for young people**, to inspire students about career possibilities, with a particular focus on getting more young people, particularly women, into science, technology, engineering and maths (STEM). Two in five employers in Northern Ireland already report, or anticipate, problems in recruiting graduates with STEM skills – and over 50% have or expect to have problems in recruiting experienced STEM workers.
- **Businesses should encourage their employees to act as school governors**, to bring high-quality and relevant skills to this key function.
- **Schools and colleges must be better incentivised to build links with employers** through a sharper focus in Education and Training Inspectorate evaluations and the introduction of destination measures

#### Key actions

- **Speedy implementation of the recommendations of the Independent Review of Careers Advice and Guidance – published December 2014** – implementation is critical if we are to align the choices our young people make with the opportunities which will be created by a lower CT rate.
- **The study of maths and English should be made compulsory until 18 for all those remaining in education.**

- **All schools to offer separate sciences as an option for GCSE, and faster progress on implementing computing as a core subject.**
- **A statutory requirement for all young people at key stage 4 and 5 to undertake work experience.**

While we accept that making the changes that we advocate in our primary and secondary education systems will do little to affect the investment intentions of firms over the coming two years there is, we believe, a clear need to realign our educational system and its outcomes so as to afford Northern Ireland Plc the best chance to succeed in the medium to long term. Making these changes will send a crucially important signal to potential investors as to Northern Ireland's intentions for its education and skills base. At the same time it will help prepare our young people, particularly from disadvantaged backgrounds, with the life and work skills to help them succeed.

In addition, the proposed Skills Barometer, being developed by the Ulster University's Economic Policy Centre along with the Department for Employment and Learning, is a positive development and we look forward to seeing its initial outputs. This will help labour market forecasting and identify areas where significant job opportunities exist, thereby acting as a useful tool in enabling our young people to make more informed choices.

### **Apprenticeships**

In respect of further realigning our skills base to the opportunities before us, we have been very supportive of the reform of apprenticeships as has been proposed. A new employer-led model is to be piloted between now and 2016 with a focus on higher level apprenticeships. Our major policy calls, all of which will form part of the new model, include:

- Creating employer-led apprenticeship programmes which deliver for the needs of the economy. Employers will now be in the driving seat to inform the content, duration and assessment of each apprenticeship
- Delivering a "UCAS style" system for apprenticeships.
- Developing a central support service for employers that will administer subsidies and other support.
- Removing the barriers to allow all age groups and to those who have already concluded an existing Level 2 to apply for apprenticeships.
- Over training, whereby larger employers are encouraged/incentivised to train more apprentices than they need to meet the needs of the supply chain.

These reforms, taken together, would in our view drive the development of a skills base which is better tailored towards the economic opportunities that a lower CT rate can bring – enabling investors to provide better opportunities for our young people while ensuring more young people can achieve their potential and have successful careers.

### **Further and Higher Education**

From the Further Education sector's work on delivering apprenticeships to the essential skills courses that it provides for many of our most disadvantaged young people there was a need to utilise the 2015/16 Executive Budget to reflect the huge importance of the sector when it comes to growing our skills base and also, very importantly, giving hope and opportunity to many of the most disenfranchised people in our society.

Although the final Budget will ameliorate some of the worst proposed impacts of the initial 11% cuts, there is still a need to better recognise the contribution that further education makes to our economy – and how it can, through its course provision and student output, help produce a workforce that businesses in a lower CT rate regime would find attractive.

It is also critical that we continue to prioritise investment into our higher and further education systems whose high quality outputs, at a range of academic and vocational levels, do so much to enhance our attractiveness as a region to do business and invest in – all the evidence indicates the demand for higher level skills will grow. But to achieve that prioritisation and ensure we have an agile and responsive FE and HE system, there are a number of factors which the Executive must reconsider.

As was detailed at length by the vice-chancellor's of Queen's University Belfast and Ulster University in their Belfast Telegraph article of 5th November 2014, '*higher education is an investment, not an expenditure line*'.

While the final 2015/16 Budget outcome was welcome, we believe that strategic prioritisation of our higher education sector, and giving it proper recognition of the contribution it makes, will be vital if we are to make the most of a lower CT rate. The quality of our universities and the steady stream of high quality graduates they produce is one of the key enablers of our attractiveness to foreign direct investors as a place to do business and invest in and enable indigenous companies to further grow and this can't be put in jeopardy. We also recognise that our changing economy will require university-level skills delivered in new and more flexible business focused ways.

Thus, with medium to long term financial security being key to the development of the universities offering, we believe the Executive must again consider the issue of increasing student tuition fees to enable both universities to better plan for the future, drive our graduate skills offering, and maintain their competitiveness.

#### **Key action**

- **Critical that we continue to prioritise investment into our higher and further education systems** – most notably delivering a sustainable and competitive funding model for our universities – we believe an early agreement by the Executive on a modest increase in tuition fees will be a necessary requirement.

## **Priority Two - Infrastructure/connectivity – essential to create a world class infrastructure that enhances our competitiveness**

Set within a lower CT rate opportunity, the infrastructure of Northern Ireland must be seen to be globally competitive. It must be benchmarked against the infrastructure of our key competitors and it must seek to maximise three critical themes for all investors – improved access to markets and onward connectivity; reliable journey times on the strategic transport network and; investment opportunities that are set within key catchment areas for employees.

Improved transport infrastructure in particular not only makes Northern Ireland a more attractive location for investment but it widens the 'catchment area' for employees, widening the opportunities and helping to spread the wealth more widely across Northern Ireland.

In the CBI Northern Ireland report *Infrastructure: Investing for our Future* published in October 2013, there were a number of key reforms to the infrastructure procurement and delivery 'system' that we clearly advocated, reforms which speed up delivery of key strategic projects and, thus, enhance our offering to potential investors and indigenous companies looking to grow:

- **Commissioning of infrastructure** within government must be more intelligent led.
- The Executive should **take pro-active measures to ensure one pipeline of projects**.
- Opportunities for Ministers to work collaboratively and move away from existing silo structure – **identify key projects collectively and prioritise these**.
- **Rationalise delivery structures** - create a new centralised procurement and delivery agency.

- **Establish the position of an Infrastructure Minister** - key deliverables to include: upkeep of an adequate pipeline of works; and report to the Assembly on progress against ISNI and shorter term capital plans.

There is now a clear need for Executive agreement on the reform outline the Finance Minister set out during 2014. This is made even more prescient given the continued difficulties faced by the construction sector locally.

#### **Key action**

- **An implementation plan was presented to the Executive's Sub Group on Infrastructure last summer and it is now crucial that all parties in the Executive buy into its principles and sign up to its potential outcomes immediately.**

Steps like those outlined above must be taken in order to ensure greater collegiately and collective responsibility around the Executive table although we acknowledge that the creation of a Department for Infrastructure, as announced by the First Minister on 2nd March, is a hugely significant step forward.

The feasibility study into the establishment of a new Northern Ireland Investment Fund, as detailed in the Executive's 2015/16 Budget, with the potential involvement of the European Investment Bank among others is to be welcomed. The need for institutional expertise in delivering our infrastructure plans and pipeline is all too clear and the EIB, for instance, stands over a track record of success that we should quite rightly look to involve. The Fund has the potential to unlock some of Northern Ireland's key infrastructure challenges – and while some of these may not be directly related to the investment intentions of firms as a result of a lower CT rate – they play into a wider picture of a Northern Ireland that is open for business. It is also important that key infrastructure projects covering transport, energy and telecommunications are reviewed on an all-island basis to ensure we maximise their impact.

#### **Key action**

- Deliver on the potential of the Investment Fund with it making its first investments by the summer of 2016.

There are of course key infrastructure projects which, if completed, could undoubtedly enhance Northern Ireland's attractiveness as a region to do business and invest in. As we detailed in *Infrastructure: Investing for our Future*, business sees a number of key schemes which the Executive should prioritise both now and into the next mandate.

#### **Key actions**

**We expect the next iteration of the Investment Strategy for Northern Ireland to be published for consultation in late summer/early autumn of 2016. Within it, business wishes to see prioritised:**

- **Improve the strategic road network** - York Street Interchange, A6 upgrade schemes, A5 upgrade, and Sprucefield bypass.
- **Enhance connectivity to our airports** (where it is also critical that the Executive collectively makes the case to the next UK Government for an early decision on the expansion of airport capacity in South East England as connectivity to London is critical) and ports.
- **Look at further encouraging long haul air-connectivity** and that to Western Europe.
- **Early completion of the Integrated Transport Hub** at Great Victoria Street.
- **Upgrading the Belfast-Dublin Enterprise train service.**
- **Within telecoms, having Belfast and Derry/Londonderry as super connected cities is incredibly important** and will provide major opportunities for firms both international and global – but Northern Ireland needs to stay ahead of curve on technology roll-out like 4G



and, given that the market is largely in control of investment, the Executive should look to where feasible make investment more attractive.

- **Ongoing investment in water and sewerage services** – vital it continues both to maintain existing asset base and assist in both continued economic recovery and our potential investor offer.
- **Energy connectivity and costs** – the second North/South electricity interconnector and restoration of the Moyle interconnector are crucial priority projects. Further, while we acknowledge the positive and significant work that the ETI Committee has already conducted on the matter, should the Executive and Utility Regulator not take some of the key strategic decisions that we have outlined, then Northern Ireland will continue to be, as a result of energy prices, unattractive for those investors whose cost base relies heavily on competitive pricing. We, and others, have been consistently clear on this for some time and set out in 2013 a ‘roadmap’ to more competitive energy prices – delivery on this is essential if we are to attract large energy users to Northern Ireland and retain existing ones.
- **Office space** – seek out innovative approaches to deal with the shortages that have been identified – and speedily progress planning applications that are in the system.

## Improving the broader business environment

While we believe that education/skills and infrastructure are the key policy areas where progress is required to enhance our overall attractiveness, there are clearly many other policy issues which impact on businesses and their investment decisions. It remains important that the Executive continues to focus on addressing these issues, and helping make Northern Ireland a location of choice for international investors. Two of these key issues are set out below.

### **Planning – improving certainty and speeding up the system**

If Northern Ireland wants to be globally competitive and make the most out of a lower CT rate then it must have a globally competitive planning framework for the development of its infrastructure. One of the key issues that we believe continues to blight our planning system is the strong perception, both locally and outside the region, that our system is too slow and bureaucratic when it comes to decision making – and a key deliverable of the new two-tier system as of April must be the rectifying of this perception. We support the transfer of powers that is now on the verge of taking effect – but several crucial opportunities for reform remain to be taken.

While we welcomed the development of the draft Strategic Planning Policy Statement (SPPS) – and its positioning as the key overarching policy framework for planning in Northern Ireland in advance of the transition of the majority of planning powers to local councils in April 2015 (indeed this must be finalised and agreed by the Executive before April), there undoubtedly remains a need to further streamline and reform some of our planning processes over the coming two years.

While there have undoubtedly been improvements in the planning process in recent years, there has been a clear acknowledgement by the Environment Minister that more needs to be done – a sentiment with which business would strongly agree. The moves to speed up the processes undertaken by statutory consultees as well as the expressed desire to see planning decisions taken in a timelier manner, thus giving greater levels of certainty to business, are positive.

In respect of the draft SPPS, it is our view that, as it stands, it does not contain enough of an economic ‘golden thread’ that would set Northern Ireland apart from its nearest competitors – indeed the evidence suggests that Northern Ireland would be lagging.

One principle that is fundamental to the reform programme and transfer of powers is the crucial **need for councils to be taking planning decisions in a speedier manner than within the present system** – a clear requirement of potential investors (and an ongoing concern of existing investors).

#### **Key actions**

- **Ensuring that the new two tier planning system is implemented smoothly and that decisions are taken by councils in a speedy manner** – certainly within existing DoE timescales. Speed and certainty of decision taking are the two things that investors want to see above all else.
- **Agreeing a democratically mandated schedule of projects** - As we outlined in detail in our Infrastructure: Investing for the Future report of October 2013, there is a clear need for the Northern Ireland Executive to periodically agree a democratically mandated schedule of key, strategic public and private sector projects.
- **Transfer of remaining planning powers** – we strongly welcome the confirmation by the First Minister on 2nd March that the remaining central government planning powers after April 1st, and the oversight powers therein, will be transferred to a new Department for Infrastructure. This will give a clear signal of the position of planning within Northern Ireland's economic framework and would enable a culture shift that, notwithstanding the major progress made by DoE in recent years, has yet to in our view be fully achieved.
- **Reviewing the Strategic Planning Policy Statement** – an early task for the new Infrastructure Minister as of May 2016 should be to review the Statement and aim to achieve a clear economic 'golden thread' throughout.

#### **Employment Law – creating the right environment to support more jobs**

Labour market flexibility is a strength rather than a weakness benefitting employees as well as business. It has brought investment and jobs to Northern Ireland, ensured workers benefit when firms grow and raised living standards for employees in the good times. But it is not enough on its own – we must do more, particularly in terms of improving opportunity – where a lower CT rate will act as a catalyst for more investment and in driving higher productivity – where a focus on education and skills have a critical role to play.

As we seek to maximise the number of jobs which will be created by a lower CT rate it is important that the employment law framework provides the right incentives and avoids undue burdens on the business community. While we welcome the reform programme that has been laid out we believe there still remains a need for the Executive to reconsider our four key principles below and look to build on these now and in the new mandate post-May 2016. A lack of political agreement on more substantial reforms will undoubtedly hold Northern Ireland back as we look to enhance our competitiveness and take advantage of a lower CT rate. According to research from the Northern Ireland Economic Advisory Group, out of 144 countries, Northern Ireland ranks 45th for labour market efficiency. And when all the performance indicators are further examined, restrictive labour regulations is in the top four in terms of the most problematic factors in doing business here. Addressing this situation will benefit employers and those seeking work. The four themes are:

- **Reform of industrial tribunals** - employment tribunals are the most critical issue when it comes to employment law for big and small businesses alike. High costs for big firms and a threat to the existence of small ones; it is the risk of a claim taking months in tribunal - not workers' rights themselves - that really frighten businesses, chilling hiring intentions and making them the highest priority for regulatory reform.
- **The introduction of a broad protected conversations policy** - this would be an opportunity for Northern Ireland to create a clear competitive advantage by leveraging our devolved powers, enabling us to lead the way in the UK. This would allow employers to engage with employees on succession planning for non-dispute areas such as retirement.

- **Reform of the collective redundancy period** - at ninety days, Northern Ireland is currently three times higher than the Republic and twice as high as Great Britain as a result of their respective recent reforms.
- **Qualifying period for unfair dismissal and its proposed increase to two years' service** - this would have an impact on our ability to attract foreign direct investment when put in direct competition with other regions in Great Britain.

Within this context, we put considerable effort into the consultation on employment law reform in 2013/14. Emerging from the consultation, the key areas we understand the soon to be published reform bill to take forward, are:

- Most significant change – **early conciliation and routing of all claims through Labour Relations Agency**. In our view this would be a positive change.
- Enabling powers to be brought forward around **neutral assessment**.
- **Collective redundancy** – proposal is to reduce this to 45 days. This will be done irrespective of size of company.
- **Consultation on tribunal rules** to be launched soon.
- **Zero hours – new regulations proposed** – particularly the matter of exclusivity clauses (we agree that 'exclusivity' clauses should be banned).

With the reform of Executive Departments now agreed, it is also worth noting that we believe that the moving of employment law powers to a new Department for the Economy is a majorly positive step in seeking to enhance our labour market competitiveness.

#### **Key actions**

- **That the Assembly speedily passes and introduces the reforms laid out in the proposed Employment Law Reform Bill.**
- **That the Executive, as part of the next Programme for Government, commits to a further study of our employment law framework and seeks to speedily deal with the clear competitiveness challenges that remain.**

#### **The UK's continued membership of a reformed European Union**

In November 2013, we launched *Our Global Future: the business vision for a reformed EU*. The report is unequivocal, after consulting with the business community, as to what **one of the key foundations of UK's continued success will continue to be – membership of a reformed European Union**.

Indeed, a survey conducted for the project resulted in 8 out of 10 CBI members saying they would vote to remain in the EU if a referendum were held tomorrow.

As the only region of the UK which has a land border with another EU Member State, the business community in Northern Ireland, and therefore our medium to long term economic prospects, are particularly susceptible to the discussion that is now being widely had at national level as to the UK's continued membership of the EU.

With access to markets a very high priority for FDI, we believe remaining within a reformed EU will be a key determinant for potential investors in Northern Ireland – few investors come to Northern Ireland for our market of 1.8m citizens, rather they come here in order to access the UK and wider EU markets.

Our Global Future is clear that the benefits of the UK's EU membership outweigh the costs. The CBI estimates that the EU is actually worth approximately £3,000 to every UK household per annum. Overall, membership of the EU is worth approximately 4-5% of UK GDP every year, or £62-78bn – roughly the size of the economies of the north east and Northern Ireland combined.

That is not to say that the EU is not without its faults – the Single Market has yet to be completed, rules and regulations over agency workers and the Working Time Directive have caused frustration, there is a lack of accountability in the EU budget, and the European Commission has a strong tendency to over-regulate leading to a sense of mission creep in some areas.

However, the CBI is clear that remaining in a reformed EU is fundamental to our economic future and no alternative model offers a better spread of advantages and disadvantages. By building a Single Market fit for the 21st century; by signing trade deals with large established markets, such as the US, along with high growth emerging markets; by recognising and respecting the boundaries set by Member States; and by improving the process for assessing new regulations and reducing the cumulative regulatory burden, the EU can be an even more positive player when it comes to Our Global Future.

#### **Key action**

- **It is critical that, at every possible juncture, the Northern Ireland Executive makes clear to the UK Government (regardless of its political make-up) that our long-term economic future is set best within a reformed European Union. This will be a key requirement for business investment in Northern Ireland, both local and foreign, long into the future.**

#### **Public services reform – need for commitment and strategic approach to initially fund a lower CT rate**

Like in the rest of the UK, public expenditure constraint is undoubtedly set to continue in Northern Ireland over the next parliamentary term. This makes it imperative for local politicians to find public service delivery models which are flexible, sustainable, more productive, and better enabled to meet the challenges of today and tomorrow – perhaps most notably demographic change. In addition, to achieve the level of public spending reductions that would be required initially to offset a lower CT rate it is critical that decisions are planned and taken in a strategic manner and that Departmental ‘top-slicing’ is avoided where possible.

The creation of a Public Service Reform Division by the Finance Minister in August 2013 was something the business community strongly welcomed. Its remit, to include looking at developing new models of service delivery such as mutuals and co-operatives, marked a change in tack from Executive Ministers.

However, to achieve the level of savings that will be required it is therefore imperative that new models of service delivery and opening up many more non-core public service markets to competition are taken forward in the coming years while other areas of waste and duplication also need to be addressed.

While work, through the Public Sector Reform Division, has already begun and we have welcomed the involvement of the OECD in a major new Public Governance Review, there is little time to rest and wait for recommendations to be made. Strategic decisions must be made now to future proof our public services and the delivery models therein.

While the current Executive 2015/16 Budget only deals with one financial year's spending, the Executive must get itself out of the mindset of financial planning for the short-term. As we have already said, regardless of the political make-up of the next UK Government the headline is clear – public expenditure constraint will continue well into the next Parliament. Northern Ireland, therefore, has to be much better placed to deal with the challenges of the next five, ten, twenty years and beyond and the linked challenges of affordability in terms of delivering a lower CT rate.

**Note:** See Box 1 in Annex for key areas of public service reform identified by the CBI.

**Key actions**

- **That the Executive speedily agrees an all-encompassing public service reform strategy that is embedded within the next Programme for Government – building on the extensive work the OECD will have by then conducted and completed**
- **That the Executive commits to exploring, actively promoting and establishing new models of service delivery for non-core public services**
- **That the Executive commits to an agreed health and social care strategy which seeks to put our health and social care services on a longer term sustainable footing – both financially and to meet challenges such as an ageing population.**

**CBI Northern Ireland**

March 2015

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**Annex****Table 1 Most influential factors when choosing to invest (Ipsos MORI telephone interview, August 2010, of FTSE 350 companies and their foreign equivalents)**

<b>Factor</b>	<b>Mean score (1-10, with 10 being very influential)</b>
Access to markets	8.77
Political and economic stability	8.33
Nature/level of regulation	7.47
Availability trained/skilled workforce	7.31
Business taxation levels	7.30
Infrastructure	7.28
Good labour relations	6.98
Flexibility of work practices	6.91
Ability to attract internationally mobile staff	6.69
Availability of land/planning restrictions	5.97
Personal taxation levels	5.78
Exchange rate risk	5.34

**Table 2 Research undertaken by DETI in 2011**

DETI research quotes the findings from fDi Intelligence Research. Their econometric model found that out of 17 variables in attracting FDI to 28 locations in 2008-10 only four of these were found to be consistently significant, accounting for 89% of the variation in FDI during this period.

## Key variables

- Corporation tax
- Market size
- Labour costs
- FDI agglomeration (the presence of existing FDI)

**Box 1 Potential public service reform options to implement:**

- Immediate and visible focus on reducing costs – early action is necessary to ensure that resources are available to invest in productivity and growth drivers
- Optimising use of technology in public service delivery – strides already made, perhaps most notably in Health, but much more can and must be achieved
- Developing mutuals and co-operatives if significant ‘outsourcing’ to private sector is deemed politically too difficult
- More significant re-engineering of public services – housing, health, education and policing and justice the primary focus
- Public sector absenteeism – need for greater focus to bring this into line with private sector. Latest figures show civil service absence of 10 days per annum on average – with UK private sector average at 4.9 days (a record low). Issues with loss of productivity in public sector as a result
- Performance management – need to encourage a climate where public sector managers are proactively encouraged and enabled to ‘manage’
- The Executive also needs to consider appropriate incentives for senior management to drive innovative behaviours and approaches

For further detail, see Moving up a Gear, April 2013:

[http://www.cbi.org.uk/media/2023224/15.4.13\\_moving\\_up\\_a\\_gear\\_report.pdf](http://www.cbi.org.uk/media/2023224/15.4.13_moving_up_a_gear_report.pdf)

**Additional papers referred to in this submission**

Response to Northern Ireland Executive draft 2015/16 Budget consultation (December 2014): [http://www.cbi.org.uk/media/3611312/ni\\_08\\_14\\_response\\_to\\_draft\\_northern\\_ireland\\_executive\\_budget\\_2015\\_16.pdf](http://www.cbi.org.uk/media/3611312/ni_08_14_response_to_draft_northern_ireland_executive_budget_2015_16.pdf)

Step Change: A New Approach for Schools in Northern Ireland (December 2014):

<http://www.cbi.org.uk/media/3575346/a-new-approach-for-schools-in-northern-ireland.pdf>

Evaluation of Education and Employer Partnerships in Northern Ireland (February 2014):

[http://www.cbi.org.uk/media/2588820/item\\_5\\_-\\_cbi\\_business-education\\_report-final.pdf](http://www.cbi.org.uk/media/2588820/item_5_-_cbi_business-education_report-final.pdf)

Our Global Future: the business vision for a reformed EU (November 2013): [http://www.cbi.org.uk/media/2451423/our\\_global\\_future.pdf](http://www.cbi.org.uk/media/2451423/our_global_future.pdf)

Infrastructure: Investing for our Future (October 2013): [http://www.cbi.org.uk/media/2434993/ni\\_17\\_13\\_cbi\\_ni\\_infrastructure\\_report\\_-\\_executive\\_summary\\_final.pdf](http://www.cbi.org.uk/media/2434993/ni_17_13_cbi_ni_infrastructure_report_-_executive_summary_final.pdf)

Roadmap to reduce energy prices (September 2013) – available on request

Moving up a Gear (April 2013): [http://www.cbi.org.uk/media/2023224/15.4.13\\_moving\\_up\\_a\\_gear\\_report.pdf](http://www.cbi.org.uk/media/2023224/15.4.13_moving_up_a_gear_report.pdf)

# Belfast City Council Written Submission

## Chief Executive's Department



Your reference

Our reference SW/lc

Date 25 March 2015

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

Dear Mr McManus

### **Inquiry - Economic Growth and Job Creation (Preparing for the Devolution of Corporation Tax)**

Thank you for your letter of the 4 February 2015 inviting Belfast City Council to contribute to the inquiry into how the two year period up to the devolution of Corporation Tax can be used to maximise the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs. Please note that the response overleaf is still subject to final ratification by full council.

The council fully supports the inquiry and the overall aim of boosting the economy and creating jobs. We already have programmes in place to increase the visibility of the region to potential investors such as our International Development Framework 2013, which targets cities in India, the USA, China and Europe, and our sister city relationships. We will also soon launch a City Centre Regeneration Strategy and Investment Plan, the Belfast Integrated Economic Strategy, the Belfast Tourism Strategy, and the Belfast Employability and Skills Strategy. All of these will help to make the city, and hence region, more attractive to potential investors. We have also started work on a Positioning Strategy that will promote the city's assets and opportunities to potential visitors and investors.

Our main response to the inquiry is shown in the attachment. It includes:

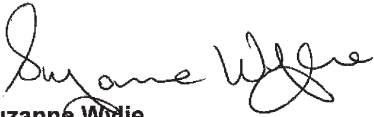
- a review of the appropriate research into key factors affecting investment (both economic and non-economic);
- examples of approaches taken elsewhere;
- our estimation of the key drivers and priorities as asked for in your letter;
- some suggestions of areas that Government can influence;
- a review of the Council's work that is relevant to the inquiry; and
- a list of potential issues to consider.

**Belfast City Council**, Chief Executive's Department,  
 City Hall, Belfast BT1 5GS  
 Tel: 028 9027 0202, Textphone: 028 9027 0405, Fax: 028 9027 0232  
 Email: [wylies@belfastcity.gov.uk](mailto:wylies@belfastcity.gov.uk)



We hope that our comments are helpful to the committee and look forward to seeing the outcomes of the inquiry in due course.

Yours sincerely

  
**Suzanne Wylie**  
Chief Executive





## Response to the Committee for Enterprise, Trade & Investment's Inquiry

### Introduction

Belfast City Council welcomes the opportunity to contribute to this inquiry. The council is approaching the conclusion of its three year Investment Programme, which secured all-party support, and was a major investment to make Belfast a more attractive place for people to visit, work, study and invest in.

The Council is also soon to launch a number of strategies that are pertinent to this inquiry. These include the City Centre Regeneration Strategy and Investment Plan, the Belfast Integrated Economic Strategy, the Belfast Tourism Strategy, and the Belfast Employability and Skills Strategy. These will all help to make Belfast and the rest of the region a more attractive prospect for investors and businesses to locate their operations.

While there is a focus on the lowering of the corporation tax rate, the committee is right to recognise that there are a series of key determinants that need to be in place to ensure that any reduction can act as a catalyst for growth. These include addressing skills and employability issues, developing the physical and business infrastructure and fostering entrepreneurship. Equally, businesses look to some non-economic factors when choosing an investment location. These include issues such as the political situation and the quality of life in an area. While this debate is primarily concerned with Foreign Direct Investment (FDI), there is also a need to recognise that indigenous businesses must be supported to innovate, grow and develop to create a more export focused and sustainable economy.

Perhaps the most important determinant in guaranteeing a successful rebalancing of the economy and attracting FDI, is strong and united leadership by the NI Assembly to lead on the required economic drivers and so ensure that any benefit from the reduction in corporation tax is fully realised.

### Research

In compiling our response to this inquiry we have made reference to the wealth of research that already exists on the subject of attracting FDI. There have also been several reviews of the performance and competitiveness of Belfast. In particular, the Centre for Cities recent report compared Belfast to 63 UK cities (Centre for Cities, 2015). Oxford Economics conducted research into the competitiveness of Belfast in comparison with other European cities (Oxford Economics, 2011).

This research is summarised in the following sections.

### Corporation Tax

There is no one universally accepted theory of what attracts foreign direct investment (Denisa, 2010). There is even disagreement over the impact of changes in corporation tax. For example, some have gone so far as to suggest that there was no evidence to support the theory that a low corporation tax alone had led to the economic growth in the Republic of Ireland (ROI)



(PricewaterhouseCoopers, January 2011) and that the Executive had been misled (BBC, 2015). Many observers have claimed that more important factors than low corporation tax were behind the economic growth in the RoI. These included a world-class infrastructure, low labour costs and high skill levels, an efficient planning system, membership of the Euro, the English language, lenient rules on profit-shifting and tax avoidance, and the role of targeted investment incentives (Stansbury, 2011) (NI Affairs Committee, 2011) (Reinsch, 2014). It is also worth noting that the NI economy was performing well prior to the 2008 recession despite the south already having a lower 12.5% tax.

To counter these views, comparisons have been made between Scotland, Wales, NI and the RoI in terms of their success in attracting FDI. It is claimed that the major difference that accounts for the much higher success of the RoI is the lower rate of corporation tax (Economic Reform Group, 2010). Specifically, it is stated that low corporation tax (firstly the very low rate for most manufacturing sectors since the late 1950s and then the general low rate from the late 1990s) are the real reason for the Republic's astonishing success during the Celtic Tiger years (Economic Reform Group, 2010). Some have described a lower corporation tax as 'indispensable ingredient' in economic growth (Economic Reform Group, 2010). Others have attempted to quantify this effect and claimed that cutting corporation tax by 10% could increase the annual economic growth rate by around 1.1% per year (Gordon, 2004).

In terms of the arguments for and against, some suggest that low profits taxes are particularly valuable to high-profit companies and especially those in R&D-intensive sectors including pharmaceuticals and computers. The low rate facilitates profit shifting in sectors where much of the profit is generated in US or other non-Irish R&D labs (Economic Reform Group, 2010). Others concede that corporation tax may be important to an extent, but point out that many developed countries tax all overseas income of domestically-based companies (e.g. all profits of a UK company earned in the RoI are still taxable in the UK). A UK-based company therefore has little incentive to create a subsidiary in the Republic of Ireland just because of the low tax rate (Stansbury, 2011). Some even claim that companies who are attracted to areas with low taxation tend to pay little or none of the tax that they are supposed to (Murphy, No pot of gold at the end of the rainbow, 2010).

Looking specifically at Northern Ireland the message is also mixed. NYSE Euronext and NYSE Technologies claimed factors such as high skill levels, low operating costs, strong incentives from local government, and a good geographical location, were more important than corporation tax. Hewlett Packard placed experience and skills above a lower rate of corporation tax. However, the Confederation of British Industry (CBI) has called for a lower corporation tax, claiming it is an important factor in attracting multinational companies to Northern Ireland (Stansbury, 2011).

These various opinions do suggest that the major incentive for inward investment as a result of a lower corporation tax rate in Northern Ireland would be confined to multinational companies wishing to locate headquarters in Northern Ireland, or multinational companies with headquarters in tax havens (Stansbury, 2011).

### Other factors

Putting the issue of lower corporation tax aside, there is lots of research relating to the other factors that can help to attract FDI.

There are two main reasons for a firm to invest in a foreign location. One is to provide better access and services to the local market. The other is to take advantage of lower costs (Martin,



2004). Lower costs could be in transport, materials or labour or access to technology that is harder to access in the organisation's home base. It can also be lower costs through reduced bureaucracy, taxation, etc. The first reason typically involves investments in advanced countries, for example Japanese car manufacturing in Europe. The second involves moving parts of the business process to low-cost locations, for example moving production to China (Martin, 2004).

These two main reasons can be further divided into four key motivators for FDI (Zvirgzde, Schiller, & Diez, January 2013):

1. **Resource seeking** – cheap natural resources, labour, physical infrastructure. These are often seen as a prerequisite.
2. **Market seeking** – proximity to potential customers and suppliers.
3. **Strategic assets** – seeking access to technologies, knowledge or other specialisms that are not available in the home country.
4. **Efficiency seeking** – relates to more efficient division of labour, specialisation of assets, reduction of market entry barriers, or reduced transport costs. This is regarded as being secondary to the first two factors.

Proximity is also considered a significant factor in investment decisions. The potential reduction in operating costs needs to be balanced against the costs of establishing production at a different location. A general rule is that the further the distance from the home base, the higher the adjustment costs of factors such as language and culture (Zvirgzde, Schiller, & Diez, January 2013).

Figure 1 attempts to summarise the motivation for firms to invest abroad.

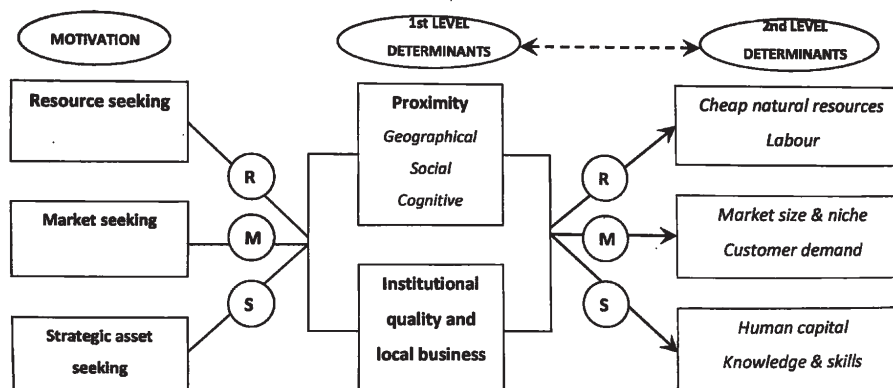


Figure 1 Conceptual Framework for FDI in transitional economies (Zvirgzde, Schiller, & Diez, January 2013)

### Resource seeking factors

#### Labour

A key resource for any organisation is labour. This can be thought of in terms of availability, skill level and cost (Stansbury, 2011).



### **Cost and availability**

Belfast was ranked next to worst in terms of its JSA claimant count when compared to 64 UK cities (Centre for Cities, 2015). The relatively high unemployment rate in NI (particularly youth unemployment, which is a significant issue) suggests that labour is readily available for potential investors (Oxford Economics, 2011). Equally, wages are competitive with the average private sector salary only about 82% of the UK average. (Harper, 2015)

### **Skills and Employability**

The situation for skills and employability is mixed. Belfast's relatively high number of graduates and highly skilled residents is seen as a particular strength (Centre for Cities, 2015) (Oxford Economics, 2011). On the other hand, Belfast is one of the worst UK cities in terms of the proportion of people with no formal qualifications (Centre for Cities, 2015) and the high proportion of unskilled labour (Oxford Economics, 2011).

Addressing the skills challenges is fundamental to any future productivity and economic growth. Belfast in particular faces a significant long-term challenge around employability and skills as identified in Belfast City Council's draft 'Employability and Skills Strategy and Action Plan' (2015). This strategy has noted the high proportion (30.4%) of the working age population hold no qualifications with only 36% of this group in employment. There is a significant over supply of lower skilled residents in Belfast with future demand being for a higher skilled labour force. Alongside this are the projections for a restrained trend for employment growth in the future (2012-2025) with significant falls in employment within the public sector.

Skills and training is fragmented throughout the city and it will remain difficult to have effective impact unless there is greater alignment between identified needs, employability provision for target groups and input from employers on the skills required.

Ensuring that the local population are inspired to develop and have access to the appropriate support is a key function for central and local government with key partners to ensure that the local population attain higher qualifications and that skills are aligned to future market demands.

In terms of higher value jobs, in particular those that require a degree level or more qualifications, the research by Ulster University shows that the most relevant degrees by sector are (Gibson, 2015):

- Manufacturing sector: business and finance, engineering, and agriculture.
- ICT sector: mathematical and computer sciences, engineering, physical sciences.
- Admin and related services sector: business and finance, physical sciences, and biological sciences.
- Professional services sector: architecture, mass communications, and law.

### **Energy Costs**

High energy costs in Northern Ireland are cited as a key inhibitor to business development and growth. Manufacturing NI have recently produced a report (Manufacturing makes Northern Ireland strong) noting that energy costs was their third highest input after labour and materials costs with electricity being up to 20% more expensive than in the Republic of Ireland.

This view is supported by research by Ulster University that suggests the three biggest issues for Northern Ireland businesses are increasing general overhead costs, increasing energy costs, and cash flow issues (Gibson, 2015).



### Physical Business Environment

There is a serious imbalance in office space in Belfast. There is significant over-supply of secondary office accommodation, with estimates of vacant space of approximately 1.2 million sq ft (Q2, 2013). However, Grade A office space is undersupplied with virtually no grade A space available or in the immediate pipeline (Urban Strategies, 2014).

The City's Integrated Economic Strategy and Regeneration Strategy both prioritise the need for Grade A office accommodation and development activity including the potential of North Foreshore. Belfast City Council through partnership with Central Government and private sector support aim to deliver 500,000 sq ft Grade A Office Accommodation to meet the demands of the market place.

### Transport and Infrastructure

Infrastructure (both physical roads, and information technology), affects transport costs and the production process itself (Stansbury, 2011) A reliable electricity and water supply is important for manufacturers, while reliable communications might be more important for service providers (Stansbury, 2011). We are not aware of any comparisons between Northern Ireland and other investment locations in these areas though publicised failures of the water and electricity supplies over recent harsh winters may harm the image of the region as a location.

One area where Belfast is rated poor in international comparisons is in accessibility, which particularly hinders tourism (Oxford Economics, 2011).

Belfast and Northern Ireland are clearly very reliant on air transport both in terms of exporting and developing linkages on an international market. Maintaining connectivity with London as a central transport hub is essential while encouraging the development of direct flight services to Europe and beyond. While the capacity and services provided by our airports locally leaves significant scope for development, government locally also needs to influence the current air passenger duty which could be deemed prohibitive to inward investment and indigenous economic growth.

There is also a need to consider the fragmented linkages between airports and the main employment areas i.e. public transport between City and international airports to encourage the development of a business focused links.

### Market seeking factors

(The proximity to potential customers and suppliers.)

#### Local Markets

The population of Northern Ireland is one of the smaller in Europe. However, being a member of the EU gives companies that are based here, access to the whole of the European market. This is important as the size of the domestic market affects the extent to which companies must focus on exporting as opposed to selling domestically, and also affects the availability of competitively priced and high quality suppliers of inputs for production (Stansbury, 2011).

Some key results from research on the Belfast domestic market are shown below:

- Belfast is in the lowest 10 (out of 64) in terms of the balance between private and public sector jobs (Centre for Cities, 2015).
- Belfast ranks 45 out of 46 European cities in terms of its economic balance or the diversity of its economy (Oxford Economics, 2011).



- The construction industry is struggling (Oxford Economics, 2011). More recent studies do show a slow recovery but mainly by firms working outside of the region and still lagging behind the rate of recovery elsewhere (BBC News, 2014).
- The retail and tourism sectors had initially avoided the worst of the recession thanks to an increase in visitors from the republic of Ireland. However this support has declined since the economic crisis in the south. (Oxford Economics, 2011):

However, distribution costs across Europe are relatively low. Hence the main appeal for an organisation to invest in NI is likely to be to secure lower costs, or other competitive advantage (as discussed in the other sections), rather than to be nearer the NI domestic market itself.

### Strategic assets factors

(Seeking access to technologies, knowledge or other specialisms that are not available in the home country.)

#### Clusters

There are mixed views on the importance of clustering as an incentive for FDI. Some have identified clustering as a key aspect of the success of the RoI economy prior to the economic crisis (Ruane & Buckley, 2006) (Esposito, Ighniades, Mecklenburg, & Paddeuolivieri, 2010). Counter to this, there is some evidence to suggest that businesses were already moving away from geographic clusters prior to the policy changes introduced in the RoI in the late 1990s to promote greater spatial dispersion. Conversely multinationals do show patterns of industry based clustering, though this could be due to policies to attract certain industries such as high-tech manufacturing (Gleeson, Ruane, & Sutherland, 2005).

There has also been criticism of the loose definition of clusters both in how it is used in research into the impact of clusters and also in terms of policy making. In particular, it is pointed out that traditional industrial classification systems fail to describe true clusters (Fanning & Doyle, 2007).

Most of the work on clusters is based on Porter's work. He defined clusters as "critical masses - in one place - of unusual competitive success in particular fields...Clusters are geographic concentrations of interconnected companies [not necessarily of the same industrial classification] and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition" (Porter, 1998) cited by (Fanning & Doyle, 2007). The main attraction for businesses is that clusters can help to increase productivity and innovation for the firms within the cluster, which gives them a competitive advantage (Fanning & Doyle, 2007). On that basis, being able to join an established cluster should prove an attraction for FDI (Zvirgzde, Schiller, & Diez, January 2013).

As such, it may be beneficial to identify areas where NI already has established clusters or the potential to develop clusters from existing areas of expertise or excellence.

For example, there are also some sectors in which Belfast is already competitive. The BBC (BBC Northern Ireland, 2015) reported that Belfast is one of five places for the most successful digital technology companies in the UK. This sector has seen 73% growth of new digital companies incorporated between 2010 and 2013. These companies across Belfast and Derry/Londonderry combined employ over 32,000 people according to a new report (Tech Nation, 2015). The key sectors are games development and publishing<sup>1</sup>, software development,

<sup>1</sup> Nesta estimates that this sector contributes £1.7 billion to the UK economy (Tech Nation, 2015).



data management and analytics. There are key capabilities in artificial intelligence, payments infrastructure and mobile and tablet development.

Previous surveys have highlighted the strength of Financial and business services in Belfast in comparison with other European cities (Oxford Economics, 2011). The potential of environmental/green businesses has also been suggested using the existing expertise in hydro and aero technologies associated with the businesses, supply chain and university connections with the harbour and Bombardier. These could be centred around the North Foreshore Green Economy Business Park. Other appropriate sectors may include creative industries, particularly video, film and photography, building on the success of headline investments such as 'Game of Thrones.' Other potential areas include life sciences, connected health and tourism.

### **Innovation and entrepreneurship**

Undermining any attempts to promote the benefits of local clusters is the continued underperformance in innovation and entrepreneurship. While foreign investment is likely to bring its own innovation and provide additional opportunities for local entrepreneurship, it will be harder to attract foreign investors if they perceive the areas to be lacking in the skill and desire to innovate. Recent surveys have all highlighted the problem:

- Belfast was last [out of 64] in terms of business start ups (Centre for Cities, 2015).
- Very low levels of entrepreneurship (Oxford Economics, 2011).
- Belfast was only 61st first in terms of patents granted (Centre for Cities, 2015).

### **Efficiency factors**

(More efficient division of labour, specialisation of assets, reduction of market entry barriers, or reduced transport costs. This is regarded as being secondary to the first two factors.)

### **Business regulation and planning**

The level of regulation and the compliance burden on companies significantly affects operating costs (Stansbury, 2011) and can be a significant factor in determining where a business locates. As previously reported, there are some observers who claim that factors such as an efficient planning system and reduced bureaucracy can play as important a role as the rate of corporation tax in terms of attracting FDI (Stansbury, 2011) (NI Affairs Committee, 2011).

Recent high profile cases have shown the frustration that existing businesses owners have with the bureaucracy affecting their business (Belfast Telegraph, 2015). Though it should also be noted that, overall, the United Kingdom is ranked as the 8<sup>th</sup> easiest country in which to do business (World Bank Group, 2015). Unfortunately Northern Ireland is not included in the rankings.

On the other hand, Government can also provide support for businesses. The Council's 2011 business survey suggests that 84% of businesses in the city had availed of no government support in the previous year, despite the range of services that are available from a number of agencies. Our experience of working with SMEs – and particularly micro businesses – suggests that they find it difficult to navigate the spectrum of agencies and programmes on offer and therefore tend to avoid getting involved in the many support initiatives which are created for them.



### Financial factors

There are various financial factors other than those previously discussed. These include the availability of finance, taxes (other than corporation tax that was previously discussed), and exchange rates. For companies with operations overseas, risks from currency fluctuations and the impact on access to international markets are very important (Stansbury, 2011). Companies based in the RoI are less likely to be exposed to this risk because of the size of the market using the Euro as currency.

In terms of access to funding, a recent survey suggests that Northern Ireland (digital sector) companies are well supported. For access to Public financial support, 75% of companies (twice the UK average) felt able to access funds. InvestNI and the £29 million Techstart NI fund have done much to facilitate this (Tech Nation, 2015).

In terms of rates and other taxes, local businesses there have been calls from local businesses to reduce VAT (McDonald, 2014) and the rates (UTV, 2015). We do not have access to any business rates comparisons between Belfast and other cities.

### Non-economic Factors

While most of the discussion around Corporation Tax has focused on economic factors, it is important to note that there are many non-economic factors that also influence FDI. It is also important to remember that if it is ability to attract investment depends on factors such as quality of life rather than just economic factors. Therefore, the committee should consider how it can work with an influence other departments to improve the region in terms of factors such as health, equality, culture and entertainment, governance, crime and safety, and the environment.

### Political Stability and Leadership

Research has shown that factors such as political risk and institutions can have a significant effect on FDI (Busse & Hefeker, 2005). Their research, which was primarily concerned with emerging and developing countries, suggested that the main factors affecting FDI decision were:

- Government stability.
- Law and order.
- The Quality of the bureaucracy.
- Investment portfolio.
- Internal and external conflict.
- Ethnic tensions.
- Democratic accountability.

Of these, the most significant factors were Government stability and law & order (Busse & Hefeker, 2005). Both are important considerations for the region and any attempts to attract FDI. Any threat of an impasse or collapse of the NI Assembly raises questions over the stability of the government (Clarke, 2014). Security alerts and civic tension, whether racial or sectarian, creates concerns about law and order, especially when they are embellished in the media. It is therefore essential that political stability continues and that politicians and civic leaders continue to play a role in maintaining stability with a view to enabling economic growth.





### Standard of living

As shown in the examples in the next section, the 'standard of living' or 'quality of life' in an area is also a consideration for FDI (Oxford Economics, 2011). Benchmarks for the standard of living consider many factors and the 2013 Good Growth for Cities index from PricewaterhouseCoopers ranks Belfast as ninth amongst the UK's top-10 cities against factors contributing to a good quality of life. The Council has commissioned various reports into the competitiveness of the city in these areas.

Belfast scored well in areas such as crime, safety & security<sup>2</sup> and affordability (Oxford Economics, 2011). Belfast was also ranked first in terms of the growth of housing stock (Centre for Cities, 2015). However, it has also been noted that city centre living has not quite achieved the same level of sustainability as in other comparable cities, and has experienced a larger downturn following the economic crisis. There is a perception that for a capital city, Belfast has not been able to attract the city centre residential community that a city of its stature should hold (Urban Strategies, 2014).

Belfast was rated the worst city in terms of social inequality and was considered average in terms of CO<sub>2</sub> emissions (Centre for Cities, 2015). There was a room for improvement in the areas of health, education and skills, culture and entertainment and governments and infrastructure where Belfast was considered to be mid tier. Belfast scored most poorly in the area of 'labour market' due to high levels of inactivity and the reliance on benefits (Oxford Economics, 2011).

### Historical connections

Another factor is the influence of historical connections and their potential impact on FDI. We have not discovered any hard evidence of this influence but there is anecdotal evidence to suggest that some FDI decisions are affected by family or historical connections to the area. Though it is not clear if these examples are relevant at the initial stage of identifying potential locations for investment, or at the final stage of deciding between the final few options. It is also possible that the anecdotal examples are actually just publicity statements to announce the arrival of a new investment. If this is a significant factor, it suggests there may be value at focusing efforts on those countries with the most obvious connections: the U.S., Canada, the U.K., Australia, and New Zealand.

### Application of these factors elsewhere

In compiling this response we have discovered some examples that show how other countries are focusing their efforts to attract FDI. Obviously we have not had the time to produce a detailed study but some of the headline results may be useful.

#### Macedonia

Macedonia is an interesting example as it shares many similar attributes to NI. In particular, it is a small country (population 2M) on the fringes of Europe (though is not yet part of the EU) and shares a historic identity with its larger neighbour (Greece). Its political parties are also predominantly based on ethnic lines and it employs a power-sharing agreement. The economy suffered through the wars following the breakup of Yugoslavia up to the end of the Albania crisis in 2001. Its economy also had to adapt, as per other former socialist East European countries, through the transition to a market economy. Its economy policy has focused on attracting

<sup>2</sup> Though it should be noted that this is not necessarily the same as the outside world's perception of safety and security in the region as referenced in the previous section.



foreign investment and promoting the development of small and medium-sized enterprises (SMEs) (Wikipedia, 2015).

Macedonia clearly sets out its benefits to potential investors with its advertising slogan (Vukovic, 2013):

*"Want to cut costs? Invest in Macedonia!*

- *0% tax on retained earnings.*
- *Competitive labour costs.*
- *Access to 650 million customer base.*
- *Foreign entities buy property freely.*
- *Skilled workforce".*

Looking at the benefits for FDI in more detail, corporation tax and personal tax is set at 10%, VAT is 18%, and there are various low taxes on property sales and inheritance tax. Government bureaucracy has also been addressed and it is claimed that a new business can be registered within 4 hours. This fast track approach also applies to issues such as construction permits, getting electricity, registering property, protecting investors and resolving insolvency. The country was ranked the 4th biggest reformer in 2008. In 2013 they were ranked the 7<sup>th</sup> best place in the world for starting a business. Macedonia is also ranked third in the world for being able to get credit for business (Vukovic, 2013).

The claim of a 650 million customers base is based on trade agreements Macedonia has with the EU, CEFTA and EFTA plus two bilateral free trade agreements with Ukraine and Turkey.

The article on Macedonia also provides examples of other successful small countries including Georgia (population 4.5M) and Mauritius (population 1.3M). All are trying to reduce problems with constraining bureaucracy, corruption and rent seeking interest groups. The author claims that smaller countries, which will not be able to compete in terms of infrastructure and reputation, need to focus on removing any barriers to new investor (Vukovic, 2013). In the author's words, Macedonia "improved its institutional efficiency and designed a set of policies and laws that attract capital. It attracted foreign companies with low tax rates (both corporate and income) and a cheap yet skilled workforce, and when they've caught their attention they made it very easy for an investor to purchase property and open a business." (Vukovic, 2013)

#### **Kobe**

Kobe (population 1,545,410) in Japan publishes an investment guide to attract FDI. It highlights various factors that it believes will appeal to investors including (Kobe, 2015):

- The quality of life
  - Existing immigrant communities and access to ethnic food.
  - Religious facilities of all faiths including Buddhist, Christians, Jewish, Islamic, Jainism, etc.
  - Foreign schools.
  - Living environment – low rents and competitive real estate combined with good urban facilities, low traffic congestion and short commute times.
  - Natural environment – scenic location with access to outdoor leisure activities.



- Connectivity
  - Domestic and international.
  - Air, sea, rail and road.
- Business facilities
  - Existing international organisations that are based in the city.
  - Showing the strength in key sectors.
  - Highlighting office space and business parks.
- One stop shop for Support and advice
  - Planning applications and temporary accommodation.
  - Key facts and figures.
  - Specialist advice – marketing information, real estate advice, etc.
  - Bureaucratic support – visas, licences, etc.
  - Incentive schemes, tax relief and investment risk support.

### **Silk Road**

The investment guide to the Silk Road area in central Asia highlights various factors to attract investors. These include (UNCTAD, 2014):

- The recent history, climate, language, religion and other demographic information for the area.
- Economic information about the area.
  - GDP, trade and trading countries, trade agreements.
  - FDI, investment environment, financial institutions.
  - Taxation, regulatory framework.
  - Infrastructure – road, rail, air, energy and telecoms.
  - Labour – age profile, levels of education, wages.
- Major industries and priorities.
  - Tourism, energy, mining, logistics, Agro chemicals, Machinery, ICT.

### **Previous successes in NI**

Belfast has been reasonably successful in attracting FDI. Belfast sits 4th out of 28 UK cities based on number of projects and 3rd out of 28 based on number of jobs created between 2009 and 2011. Notably the list of investors in the city includes international brands such as CitiBank, HBO (Game of Thrones), Fujitsu, Liberty IT, Bombardier and New York Stock Exchange all of whom have established substantial bases in Belfast (Urban Strategies, 2014).

### **Key drivers**

Based on the previous section, we consider the main drivers for attracting FDI to Northern Ireland to be:



- |  |  |
|--|--|
| Labour   | Transport and infrastructure   |
| <ul style="list-style-type: none"> <li>• Cost</li> <li>• Skill levels</li> <li>• Availability</li> </ul> | <ul style="list-style-type: none"> <li>• Overland</li> <li>• International</li> <li>• ICT</li> </ul> |
| Energy costs   | Financial factors  |
| Physical business environment  | <ul style="list-style-type: none"> <li>• Taxes &amp; Rates</li> <li>• Access to finance</li> </ul>   |
| Local market   |  |
| Clusters   | Political stability  |
| Innovation & entrepreneurship  | Standards of living  |
| Business regulation and planning   | Historical connections   |

The inquiry has asked us to consider how importance these factors are to manufacturing and service sector FDI. We have added some comments below. However, we did discover some research that suggests that different sector can also have a greater or lesser impact on the home economy. The inquiry may want to consider this in more detail. In summary the research suggested that FDI in primary sectors (mining, agriculture, etc) can have a negative impact on economic growth whereas FDI in manufacturing has a positive impact. The data for FDI in the service sector was not conclusive (Alfaro, 2003).<sup>3</sup>

**Key drivers for manufacturing**

We have attempted to quantify the factors previously identified by their relevance to manufacturing industry. This is obviously open to interpretation and will vary between different types of manufacturing (especially low tech versus high tech). It will also depend on whether the definition includes associated elements such as research and development. Therefore the following table should only be used as a rough indication and we would recommend that a more robust method is used to determine the actual position.

Factor	Importance	Factor	Importance
Labour Cost	High	Transport Overland	High
Labour Skill levels	Medium	Transport International	Medium
Labour Availability	High	Infrastructure ICT	Low
Energy costs	High	Taxes & Rates	Medium
Physical business environment	Low	Access to finance	High
Local market	Medium	Political stability	Medium
Cluster	High	Standards of living	Low
Innovation & entrepreneurship	Medium	Historical connections	Low

<sup>3</sup> Though it should be noted that this research was limited exploratory research.



Business regulation and planning	High <sup>4</sup>		
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Table 1 Priority factors for FDI in Manufacturing

With regard to manufacturing, the experience of the existing local market is worth noting. Two points in particular from previous studies:

- Manufacturing is continuing its long-term decline. (Oxford Economics, 2011):
- The requirements to have a degree is most obvious in the ICT and financial sectors. Manufacturing by contrast has a fairly even spread of qualification levels. (Gibson, 2015).

### Key drivers for service industry

We have attempted to quantify the factors previously identified by their relevance to the service sector. This is obviously open to interpretation and will vary very widely between different types of services (call centres versus legal). It will also depend on whether the services are being established to serve the local market or as an international hub. Therefore the following table should only be used as a rough indication and we would recommend that a more robust method is used to determine the actual position.

Factor	Importance	Factor	Importance
Labour Cost	Medium	Transport Overland	Low
Labour Skill levels	High	Transport International	Medium
Labour Availability	High	Infrastructure ICT	High
Energy costs	Medium	Taxes & Rates	High
Physical business environment	High	Access to finance	Medium
Local market	Low	Political stability	Medium
Cluster	High	Standards of living	Medium
Innovation & entrepreneurship	High	Historical connections	Low
Business regulation and planning	Low		

Table 2 Priority factors for FDI in the Service industry

With regard to the service sector, the experience of the existing local market is worth noting. Three points in particular from previous studies:

- Most job losses suffered since 2008 we're in business services. (Oxford Economics, 2011).
- The requirements to have a degree is most obvious in the ICT and financial sectors. Manufacturing by contrast has a fairly even spread of qualification levels. (Gibson, 2015).

<sup>4</sup> We have assumed that most manufacturing investment will require the building of new factories and distribution centre and hence planning will be a key issue.



- The investment expected to be attracted to Northern Ireland is in areas such as research and call centres. These are not sensitive to issues such as location and transport costs (Stansbury, 2011).

### Priorities

In this section we attempt to answer the questions of how well each of the priority factors are developed in Northern Ireland to support inward investment, economic growth and job creation. We have attempted to summarise this on the table below. This lists each of the factors, then gives them a rating of how important they are and how well developed. It is hoped that this provides an indication of where future effort needs to be targeted. In particular, areas of importance in which we are currently weak need to be addressed.

However, it must be noted that this is our best estimate based on the research outlined in the rest of this report. It is also very difficult to summarise the results to this level. For example, should we compare the performance of the region to Ireland and the UK, Europe or the world? If you consider just one factor (labour costs) you can see how the result would vary considerably. Therefore our results are far from rigorous and we would urge further research, based on exiting benchmarks (World Bank Group, 2015), to ensure meaningful and realistic conclusions.

Factor	Importance	Rating	Factor	Importance	Rating
Labour Cost	High	Good	Transport Overland	Medium	OK
Labour Skill levels	High	Good Poor <sup>5</sup>	Transport International	Medium	Poor
Labour Availability	High	Good	Infrastructure ICT	High	Good
Energy costs	High	Poor	Taxes & Rates	Medium	Medium
Physical business environment	Medium	Good	Access to finance	Medium	Good
Local market	Low	Poor	Political stability	Medium	Poor
Cluster	High	OK	Standards of living	Medium	Poor
Innovation & entrepreneurship	High	Poor	Historical connections	Low	Good
Business regulation and planning	Medium	OK			

Table 3 FDI factors, their importance and current levels of development

Importance rating scale: High, Medium and Low

Rating scale: Good, OK, Poor.

These results mirror the headline results from an early report that the council commissioned that concluded that the main factors that restrict Belfast competitiveness are (Oxford Economics, 2011):

- High levels of economic inactivity [which affects the standard of living].
- A high proportion of unskilled labour.

<sup>5</sup> We have a high proportion of labour educated to degree level but a large number of people with no qualifications.



- An over reliance on the public sector for employment.
- Low levels of entrepreneurship.

## Domestic Investment

While this inquiry is focused on the factors affecting foreign direct investment, it might be beneficial to also consider whether any proposed changes will also encourage an increase in domestic investment.

It has been claimed that domestic investors will base their decision primarily on the post-tax rate of return of their investment. Obviously the total tax rate (including corporation tax) will affect the rate of return. However, it is argued that other factors may be even more important. These include the cost and availability of resources such as machinery, land and labour (Stansbury, 2011).

Sainsbury argues that SMEs (small and medium-sized enterprises, which employ 250 people or less) are less likely to be significantly affected by corporation tax (compared to large companies), as their percentage profits are normally lower. Lowering corporation tax rate was ranked as only the fifth (most important factor tied with increasing personal tax allowances) in improving economic prospects according to SMEs.<sup>6</sup> The top four factors were cutting business rates, increasing bank lending, cutting employers' national insurance, and keeping VAT at 15% (Stansbury, 2011). In Northern Ireland, 95% of businesses employ less than 10 people, and SMEs (employ over 65% of the private sector workforce).

## Key economic drivers that we can influence

Factor	Importance	Rating	Government control & influence
Labour Cost	High	Good	
Labour Skill levels	High	Good Poor <sup>7</sup>	Training should be less fragmented. There needs to be greater alignment between identified needs, employability provision for target groups and input from employers. The local population need to be inspired to develop and have appropriate support. Appropriate and sufficient funding of the universities in the relevant sectors.
Labour Availability	High	Good	
Energy costs	High	Poor	Invest in alternative energy schemes. Reduce barriers to alternative energy schemes.
Physical business environment	Medium	Good	Planning Masterplans need to be developed and publicised to potential investors. Incentivising the development of Grade A office accommodation.
Local market	Low	Poor	

<sup>6</sup> Northern Ireland Federation of Small Businesses 2009 survey.

<sup>7</sup> We have a high proportion of labour educated to degree level but a large number of people with no qualifications.



Cluster	High	OK	Targeted support for priority sectors. Support for existing clusters to publicise their achievements. Lobbying for enterprise zones or equivalent.
Innovation & entrepreneurship	High	Poor	Targeted funding for programmes to encourage innovation and entrepreneurship. Investing in relevant infrastructure such as the Innovation Centre. Awareness raising of opportunities at an earlier age – school age.
Business regulation and planning	Medium	OK	
Transport Overland	Medium	OK	
Transport International	Medium	Poor	Reduce airport taxes. Improve rail/bus links to Dublin and Belfast international airports. Lobby for appropriate connections.
Infrastructure ICT	High	Good	Support of schemes such as Super Connected Cities.
Taxes & Rates	Medium	Medium	
Access to finance	Medium	Good	
Political stability	Medium	Poor	Providing a positive and consistent message about what the region has to offer.
Standards of living	Medium	Poor	
Historical connections	Low	Good	
Other			Benchmark research into NI's real performance in key areas as per existing structures (World Bank Group, 2015). Research into what barriers current NI businesses are experiencing. Thorough research into what sectors would provide the best 'fit' with what NI has to offer so that efforts can be targeted at those sectors.

Table 4 FDI factors that Government can improve.

**What the council is currently doing**

Professor Michael Parkinson (2014) has advised that city regions which have more of the following features are more successful: economic diversity; innovation in firms and organisations; human capital and skilled workforce; connectivity - internal and external; place quality - social, cultural, environmental ; governance, leadership and strategic capacity to create and deliver long term development; decentralisation of decision-making powers and deconcentration of investment. The policy challenge is to create the conditions which give cities more of these assets.





Belfast City Council is developing a draft Integrated Economic Strategy (IES) in partnership with Invest NI recognising that there was no definitive economic strategy for the city and no clear leadership in this field.

The strategy focuses on five key themes with a goal to make Belfast the regional driver for economic growth and development for the region. This strategy has also identified the inclusion of a Strategic Economic Partnership as the economic strand of the Community Plan, referred to as The Belfast Agenda, post Local Government Reform. The partnership will be supported by a number of task force groups created around key themes including sectoral specialisms and economic themes such as employability and skills and Entrepreneurship and Enterprise. These structures will be an inclusive partnership of the private and public sectors with voluntary and community stakeholder organisations in the City, working together to advance an agreed economic agenda for Belfast.

Some of the key actions of the Integrated Economic Strategy focus on creating an international investment proposition, marketing key investment projects such as the Green Technology Park and the engaging with key partners, particularly Invest NI to coordinate activities to attract and support investment into the city.

#### **Innovation and entrepreneurship**

Ensuring that local businesses have the support to innovate and grow is another key determinant for successfully rebalancing the economy. Belfast City Council recognises this and is in the process of implementing a range of projects and initiatives that have innovation at their core. These include the Super Connected Cities project and the provision of a range of support and aftercare services for Belfast based SMEs across key sectors at pre-start/start-up and growth levels.

The development of an Innovation Centre to support hi-tech start-ups located beside Belfast Metropolitan College's E3 campus and the establishment of a creative hub facility for digital content companies beside the new University of Ulster campus, further illustrate the commitment we have made to encouraging greater innovation and creativity among all businesses in the city.

Innovation does not happen in isolation and it is not just about R&D and high tech firms. Innovation is also related to skills development and the instilling of a spirit of entrepreneurship in the community. Belfast City Council has been working with a wide range of partners over the past number of years such as the Ulster University, Queens University, NISP, Invest NI, Digital Circle and Belfast Metropolitan College and we are committed to developing these relationships further over the coming years

Alongside this theme to become a competitive and internationally connect city also lie a series of actions to support indigenous businesses and encourage the start up and development of new and innovative entrepreneurs. Key priority sectors for Belfast City Council are Creative and Digital Industries, Green Technology and Renewable Energy, Tourism and Social Economy.

#### **Potential growth sectors**

The Integrated Economic Strategy (IES) identifies the opportunity sectors for Belfast as telecoms and ICT (currently estimated to have potential to grow by 20,000 jobs in Northern Ireland, but mostly concentrated in Belfast), professional and administrative services (including in particular legal and financial administration), advanced manufacturing (including renewable energy and low carbon technologies), the creative and cultural industries, tourism and the social



economy. It is these sectors that offer Belfast and the region the greatest opportunities and need the infrastructure and support in place to encourage growth.

The world is much better connected than it was a couple of decades ago. This brings opportunities as well as challenges to cities around the globe. The challenge for Belfast will be to attract investment, tourism and talent to the city, whilst improving the competitiveness of the local economy to compete on an international stage.

### **Promoting the region as a place to invest**

Belfast is recognised worldwide as a location of choice for many of the world's leading companies. The EY Attractiveness Survey UK 2014 stated that in the last year Northern Ireland was the best performing region in the UK for attracting inward investment. On a per capita basis, the region secured almost 40% more new inward investment jobs than the next best region, and three times as many as London. In addition, local companies are increasingly looking to international markets for their products and the business support regime needs to take account of these developments. Belfast City Council is working with key partners in the tourism, investment and education sectors to build a new shared narrative for Belfast to support the city's international promotion, marketing and positioning to ensure maximum profile and return.

The Council has also delivered (and will continue to deliver) a number of programmes and events to promote the region to investors and create export opportunities. The main target areas being the USA, India, China and Europe. A small number of examples of our activities include: hosting inward visits from our sister city Boston, hosting a visit from the Comptroller of the State of New York (who manages the state's \$180.7 billion pension fund), signing co-operative agreements with Shenyang, supporting the summer programme for Chinese students, facilitating the signing of a memorandum of understanding between the Chambers of Commerce in Belfast and Bombay, and hosting the Global India Conference.

### **Regeneration**

The council is also soon to launch the Regeneration Strategy and Investment Plan for the city centre. This recognises that the success of Belfast's city centre is central to the future growth of the city and region – it is to a large extent the international face of the region and the place on the basis of which people make decisions about where to invest, live and where to start a business. The Strategy has eight main policies aimed at improving the city, which should all help to make the city and region more attractive to potential investors. The relevant policy areas are:

#### ***Increase the employment population***

- Develop a comprehensive knowledge economy marketing programme for the city centre with appropriate inducement packages.
- Identify key Grade A office sites in three locations (traditional office core, City Quays, and Titanic Quarter) and prepare them for development.
- Examine the opportunity for selective demolitions of redundant stock to facilitate Grade A office construction.
- Consider ways to incentivise the upgrading of existing office space to Grade A standards.
- Undertake a feasibility study/pilot project to determine how Belfast City Council could derisk private sector investment in Grade A office construction.



- Support the creation of a prestige office cluster surrounding the Great Victoria Street Transport Hub by giving the station a presence on the street and identifying and preparing sites for Grade A office development.

***Increase the residential population***

- Identify key residential sites and prepare Market & Development Briefs, in discussion with landowners.
- Continue to work with the major educational institutions to develop a coordinated student housing programme.
- Develop a strategy and incentives for the adaptive reuse of heritage buildings, with a particular emphasis on student housing.
- Remedy any key deficiencies in the city centre living environment, through improvement of food shopping, day-care, open space and sense of security.
- Identify well-supported social housing opportunities along the major roads leading into the centre.

***Manage the retail offer***

- Develop a regional planning strategy or urban policy favouring city centre retail activity that could attract a large department /anchor store.
- Develop a refreshed Framework Plan for the North East Quarter including Royal Exchange that includes a mix of retail and non-retail uses.
- Develop a Donegall Place retail management strategy and potentially retail management body.
- Work with major owners and shopkeepers in and around CastleCourt Shopping Centre on strategies to renew the area's retail offer.
- Use the opening of the Rapid Transit system as an opportunity for a major re-branding of the city centre shopping experience that emphasises greater accessibility to communities.
- Develop a unified city 'app' that promotes the city centre by providing information on public transport, parking, events, sales, etc as well as coupons, booking opportunities, etc.
- Develop community policies and grants that encourage the opening of local, 'one-of-a-kind' shops, restaurants and entertainment with an initial focus in the Castle St./ Bank Square area.
- Create policy to support the retail offer with complementary uses such as accommodation, food and entertainment.
- Work with DRD to develop and implement a city centre parking strategy involving consolidation of car parks and real time advertisement of parking availability.

***Maximise the tourism opportunity***

- Work with the Airports on new connections to support business conference tourism.
- Identify a significant new tourism destination within the city centre.



- Increase the number and draw of largescale events occurring in Belfast and explore developing a city festival.
- Establish Belfast as a centre of 'adrenalin' recreational tourism.
- Work with local organisations to amplify the emerging Belfast brand related to food, music, literary and cultural events, festivals and recreation with the Castle Street/Bank Square District becoming a distinctive complement to the Cathedral Quarter.
- Investigate the potential of a new event/exhibition/festival space created by glazing the City Hall courtyard.
- Develop a promotion strategy for Belfast's existing attractions including marketing and better wayfinding between attractions.
- Identify and implement some 'quick wins' such as changes to licensing laws and encouraging businesses to open on Sunday mornings.

***Create the region's learning and innovation centre***

- Support the Campus Community Regeneration Forum to develop a comprehensive outreach programme between the University of Ulster and surrounding communities.
- Manage the connection between city centre business, cultural, professional and institutional communities to ensure targeted skills training.
- Continue to pursue the proposed "Creative Hub" and establish connections with complementary institutions.
- Explore the potential for instituting an innovation competition, with a potential focus being a Belfast "app".
- Contribute to a site options analysis for a potential BBC relocation.
- Develop a masterplan and regeneration strategy for the University of Ulster district.

***Create a green, walkable, cyclable centre***

- Develop key bike arterial routes giving access to the centre.
- Ensure bike rental and parking facilities are abundant in the centre.
- Plan a major new open space in the northern part of the city centre, combining existing open spaces at Buoys Park and Writer's Square and the land around St. Anne's Cathedral.
- Develop a transformative landscape vision for the river corridor through the centre to the Titanic Quarter.
- Prepare a major traffic calming scheme for Oxford Street.
- Revitalise the public realm of the traditional office core by extending Streets Ahead to the south.
- Identify a location for a new public square in the traditional office core.
- Complete and transform the Inner Ring Road by: completing the South Link, creating a treed urban boulevard where possible, implementing 'super crossings' at key intersections.



#### ***Connect to the city around***

- Improve the visual impact and pedestrian connectivity through the M3 and York Street interchange.
- Construct two new pedestrian bridges across the river at City Quays/Odyssey and Gasworks/ Ormeau Park.
- Make improved connections to the Crumlin Road Gaol, the Gaeltacht Quarter and Queen's University through streetscaping, signage and infill development.
- Work with the owners of CastleCourt to improve connectivity and permeability from the north and west.

#### ***A shared space***

- Create a city centre events manager to program public spaces with large and small scale festivals and events.
- Make public spaces in the city centre child friendly.
- Locate facilities for informal sports such as five-a-side pitches.
- Increase water activity on the River Lagan such as boating, floating restaurants, floating art festivals.

## **Issues to be considered**

### **Policy notes**

Some research has highlighted some general guidelines for policy making that is aimed at attracting FDI (Ruane & Buckley, 2006):

- We are competing in a global market for FDI and the situation is currently evolving. We need to constantly evolve and tailor our offer.
- Single incentives, such as a tax break are less appealing than the overall package. The aim should be to make it easier for an investor to do business.
- We need to focus on providing what organisations want rather than trying to sell what we have.
- We need to be selective in the projects we run and support and focus on some sectors rather than try and appeal to all. The choices we make should be based on thorough cost-benefit analysis.
- Policy consistency matters to investors and so policy should evolve systematically. We need to avoid the uncertainty created by sudden changes and knee jerk reactions.
- Performance-based incentives, both fiscal and financial, can combine well. It is best to use incentives that are designed to ensure that the outcome (be they technology, output or export related) benefits the host country.
- Projects and performance based incentives need to be openly monitored and reported.
- Don't presume that FDI will link into existing local supply chains, especially as production supply chains become increasingly global.



- FDI policy based on the principle of low supply-side costs is unsustainable. In the longer term it results in either FDI leaving or “an inter-regional race to the bottom” (Martin, 2004).
- Our FDI decisions may need to choose between a focus on increasing productivity versus increasing employment (Oxford Economics, 2011). For example, lower wages are likely to attract new firms and investment. They are also likely to result in a higher number of total jobs, which will appeal to the large numbers of unemployed in the city. Alternatively, a focus on higher productivity would help to boost wage levels and the quality of life but might alienate those with low skill levels who are currently unemployed. A balance needs to be found to address the short term needs of the current workforce compared to the longer term needs of the city as a whole (Oxford Economics, 2011).
- In terms of having a skilled workforce, STEM degrees are very important, but there does need to be a mix of skills and skill levels to provide a balanced workforce (Gibson, 2015).

## Risks

### To existing business

There is some research that suggests that sometimes foreign direct investment is attracted to markets that are already weak. It can then result in local firms being driven out of business (Denisa, 2010). This may also apply to sectors that are currently considered to be a success but are still relatively small on a global scale (e.g. IT and Creative Industries). It is important that any NI strategy avoids damaging local markets that are beginning to show signs of recovery on their own.

### To the NI budget

Previous section highlighted the mixed views on the impact of corporation tax; however there have been even stronger concerns raised. In particular, it is not clear how much of an impact the reduction on the block grant will have on the economy.

It is hoped that eventually the increase in FDI will result in a net gain in overall tax income. Some predictions have suggested it will take approximately 13 years (Economic Reform Group, 2010). Other estimates, have suggested the economy would need to grow by 33% to break even on tax income (Baker & Murphy, 2013). Others quote a 10.2% growth in the economy in 16 years (Gibson, 2015). This seems reasonable compared to other estimates that suggest cutting corporation tax by 10% could increase the annual economic growth rate by around 1.1% (Gordon, 2004). The figures are worryingly inconsistent and suggest that it might take considerably longer than 13 years to break even. It is also not clear how long it will take to recover the full amount lost over those 13 (or more) years.

Adding to this confusion, it is also not clear how much the NI budget will benefit from any increase in VAT, Income Tax, reduction in benefit claims, etc that an increase in FDI may bring. It seems that any such increase will go to the Treasury. The only direct benefit for the NI budget seems to be in increased income from rates income if the policy is successful. Finally, the exact amount of the initial cost is also unclear with estimates ranging from £220m to £700m.



More worrying is the risk<sup>8</sup> that devolving corporation tax could result in similar requests from Scotland and Wales and then some of the English regions who are also struggling economically. That could result in pressure to review the Barnett formula, which could cost NI in the region of £2.4 billion if a simplistic UK average figure was used.<sup>9</sup> A poll in September 2014 showed that 76% of people were in favour of scrapping Barnett (Wilkinson, 2014).

Though we do note that a policy of reduced corporation tax has been identified as possibly the most likely to contribute to a successful economic development strategy in Northern Ireland over a reasonable timescale (Economic Reform Group, 2010).

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<sup>8</sup> Though this is very unlikely and the figures are a very simplified 'worse case' scenario where the UK average Barnett figure (which doesn't include all forms of public spending) is applied to all regions.

<sup>9</sup> Figures based on (Webb, 2014).



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# Mid and East Antrim Borough Council

## Written Submission



### Growing the Economy and Creating Jobs with Lower Corporation Tax Inquiry by the Committee for Trade, Enterprise and Investment Written Submission from Mid and East Antrim Borough Council

## 1. Introduction

- 1.1. Mid and East Antrim Borough Council note the announcement by the Westminster Government to introduce a bill to devolve corporation tax varying powers to the Northern Ireland Assembly from 2017.
- 1.2. We believe that Mid and East Antrim Borough Council is well placed to grow a sustainable economy with jobs and skills to match, and have identified Growing the Economy as a key strategic priority for our Council.
- 1.3. The new powers vested in local government will enable councils to develop areas which will be attractive to business and investment. Council led community planning and the development of a Local Development Plan are key tools in “Place Shaping”, working in partnership with the Northern Ireland Executive, communities and businesses, we are confident of Mid and East Antrim’s ability to grow our economy, providing jobs and improved quality of life for our citizens.

## 2. Key determinants of inward investment and economic growth and recommendation for action

### **Differentiation**

- 2.1. Mid and East Antrim Council believe that Northern Ireland must favourably differentiate itself from other regions and countries, providing the right conditions for businesses to thrive. In turn, Mid and East Antrim must favourably differentiate itself within Northern Ireland as a place for business to thrive.
- 2.2. To attract sustainable investment, Northern Ireland requires the right infrastructure and the right workforce.

### **Infrastructure**

- 2.3. Mid and East Antrim benefits from its strategic location within Northern Ireland. In addition to the Port of Larne we benefit from close proximity to both major airports and the port of Belfast. The connectivity will be further enhanced by the upgrades of the A8 and A2 improving road travel between Mid and East Antrim and Belfast, and the dualling of the A26 to enhance the strategic corridor with the north of the province.
- 2.4. Infrastructure is however wider than good roads. We are focused on ensuring that Mid and East Antrim enjoys fast and efficient public transport routes; universal, fast and reliant broadband and mobile network coverage; affordable housing; and leisure and cultural

facilities. All these will differentiate Northern Ireland from the rest of the world as an attractive place to invest, work and live.

### **Workforce**

- 2.5. Northern Ireland needs to offer people with the right skills and knowledge. Statistics indicate there remains a high level of those of working age who are economically inactive and low levels of self-employment and entrepreneurship.
- 2.6. Mid and East Antrim Borough Council believe that the potential is there, and with the right incentives and training, can be unlocked.
- 2.7. Community planning provides an opportunity to address local skills shortages, identifying where gaps lie and the solutions to close those gaps. Although Further Education Colleges and Universities are not statutory community planning partners, closer collaboration with the further and higher education sector, regarding what is needed and what could become an area's unique selling point, is essential.

### **Supporting our local businesses**

- 2.8. It is encouraging that the Northern Ireland economy has started to return to growth. Although Mid and East Antrim maintained an above average employment rate during the economic downturn, Mid and East Antrim Council recognise that more work is required to address the issues of economic inactivity, consumer and public debt and below UK average living standards faced by our citizens.
- 2.9. Council believe that a prosperous local economy will attract further investment and thus encourage a continuous cycle of wealth and job creation.
- 2.10. With the Transfer of Planning to local councils, Mid and East Antrim Borough Council see this as an unprecedented opportunity to fundamentally transform our local areas. We believe it is one of the tools to regenerate our area in order to deliver tangible results in terms of jobs, better paid and higher value, growth and rejuvenation.
- 2.11. Flexible office accommodation will support both existing businesses and attract inward investment.
- 2.12. New economic development powers and functions transferring to Councils, along with local development plans and the General Power of Competence, will enable Council to take reasonable action to improve our local economy, within legal compliances. Supporting our existing businesses by reducing red tape, in line with the 'Making Life Simpler: Improving Business Regulation in Northern Ireland' report and working more closely in partnership with the private sector to deliver economic success.

### **Partnership approach**

- 2.13. Mid and East Antrim Borough Council believe that all stakeholders will need to work together to deliver the outcomes of economic growth and job creation. Silos must be broken down and a new approach adopted to how growth and jobs are delivered embraced.
- 2.14. Collaboration between the public, private and voluntary sectors must be fully utilised, and regional policy supported by local knowledge. Formal strategic partnerships designed to deliver outcomes, both regionally and locally are vital and councils have a key enabling role through existing structures and knowledge to support this partnership approach.

### **Greatest potential for growth**

- 2.15. In addition to the priority areas identified by the Committee, Mid and East Antrim Council believe that, particularly within our area, developing our tourism potential will be key to driving economic growth.

- 2.16. A regional Tourism Strategy, reflective of local tourism objectives, is a priority action going forward, supported by a collaborative working relationship between the Tourism NI, Invest NI, local government and the private sector.
- 2.17. Reduced air passenger duty and sea travel costs would support tourism initiatives.
- 2.18. Mid and East Antrim Borough also boasts a number of successful advanced engineering, life and health sciences and agri-food companies and the potential to take advantage of their experience through a shared knowledge forum should be explored.

### 3. Conclusion

- 3.1. In conclusion, Mid and East Antrim Borough Council believe we are in a strong position to alongside the Northern Ireland Executive and its Departments to jointly shape the development of the Mid and East Antrim area to ensure that our people and place are supported and developed to embrace the opportunities to grow the local economy.

# Northern Ireland Chamber of Commerce and Industry Written Submission



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

April 2015





## ABOUT US

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.

## NI CHAMBER BOARD & COUNCIL

### 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

Mr Francis Martin, BDO

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





## Foreword Kevin Kingston, President



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.



**Key determinants of inward investment and economic growth**

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

### 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.

#### Longer Term

- 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

### 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 ROI).
- 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.

#### Longer Term

- 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**

**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 value.
  - 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	Existing Exporters
1. Finding/understanding overseas customers	1. Inadequate market intelligence
2. Scale - business is too small	2. Developing/maintaining necessary skills to export
3. Finance requirements	3. Finance requirements
4. Having the right management/staff skill	4. Export costs including logistics



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

**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.

**Recommendations**

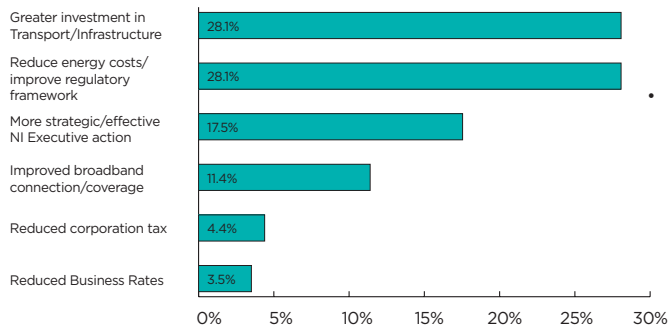
**Short Term**

- 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.

**Longer Term**

- 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).

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



(Source: NI Chamber QES, Q4 2014).



## Action 5 - Support long-term business investment

### 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.

#### Longer Term

- 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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# Department for Enterprise, Trade and Investment / Invest NI / InterTradeIreland Written Submission

## 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. This 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

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

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

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.
- InterTradelreland 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.
- 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

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3 Source: UK Broadband Impact Study: SQW (November 2014)

4 "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

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 than 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 labourintensive 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

- 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 Agrifood) 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.

5 Economic Strategy: Priorities for Sustainable Growth and Prosperity: March 2012

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

### **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 restructuring 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.
- 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 costsensitive 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).

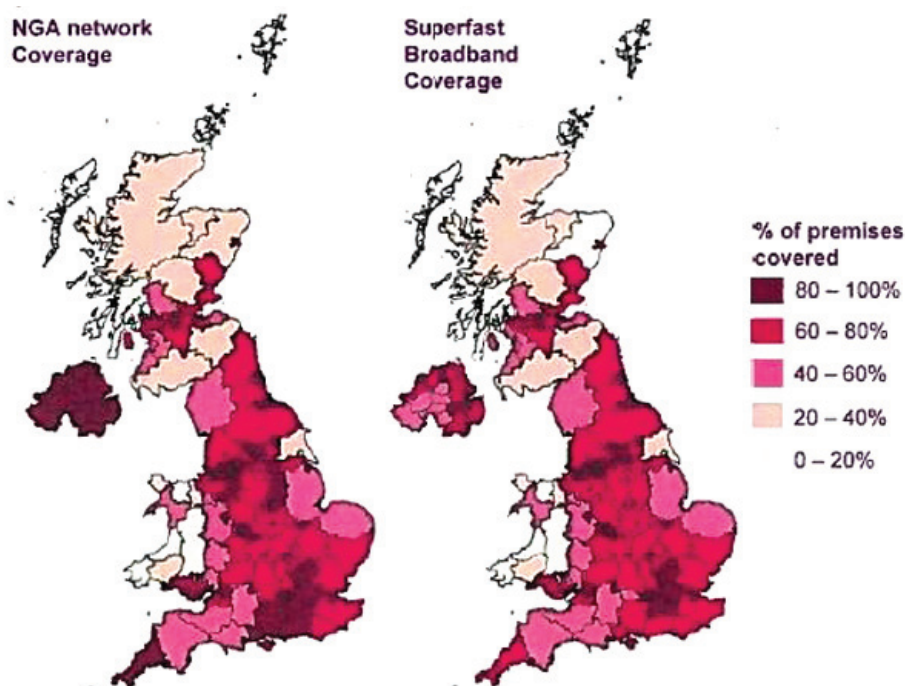


Figure 2 – Availability of NGA and Superfast Broadband Coverage by Local Authority<sup>7</sup>

- 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>.

### Energy Costs

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

7 Source: Infrastructure Report 2014: Ofcom (December 2014)

8 Source: Infrastructure Report 2014: Ofcom (December 2014)

9 Source: Infrastructure Report 2014: Ofcom (December 2014)

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

11 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

12 Source: Infrastructure Report 2014: Ofcom (December 2014)

## 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.

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## 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, 3rd 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.

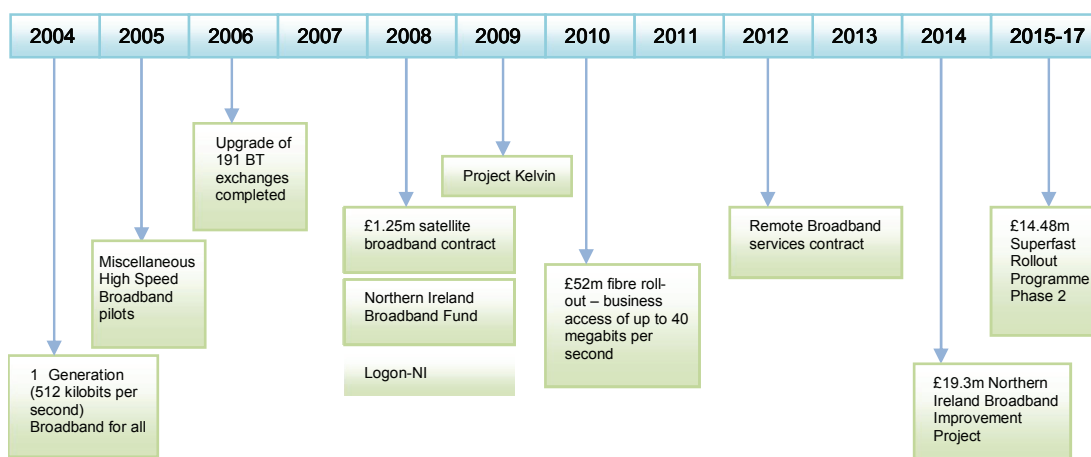
## Economic Infrastructure

### 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**

### 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-northernireland/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 £52m fibre rollout.

# Irish Congress of Trade Unions Written Submission

## Corporation Tax - The Job Creation Myth

*NIC-ICTU briefing for the Committee for Enterprise, Trade & Investment*

14 April 2015

The Irish Congress of Trade Unions is the federation body for trade unions on the island of Ireland. The Northern Ireland Committee is the elected body representing the interests of trade unions and their members. 34 trade unions affiliate to ICTU in Northern Ireland representing 211,800 members across public and private sector workplaces.

We are grateful to the ETI committee for the invitation to submit this briefing paper.

After years of lobbying by corporate interests and as part of the Stormont House Agreement, our local political parties have secured the passing of a Bill at Westminster, which will enable Northern Ireland to set its own rate of corporation tax from April 2017.

Announcing the measure, Theresa Villiers, Secretary of State for Northern Ireland, said:

*“There is strong support for this change across all 5 of the parties in the Northern Ireland Executive and the business community who believe it would provide a major incentive for domestic businesses to invest further in Northern Ireland and significantly increase foreign direct investment. Given the land border shared with a lower corporation tax jurisdiction, this measure has the potential to create thousands of new jobs and stimulate crucial growth in Northern Ireland’s private sector, leading to a stronger, re-balanced economy.”*

To prepare the ground for this measure these same parties are looking to ‘lose’ 20,000 public sector jobs in the next 4 years. This will enable the Assembly to make up the immediate shortfall in tax revenue lost to the Treasury, until the point is reached where new investment exceeds the amount sacrificed. The “re-balancing” of our economy will come apparently, from the Foreign Direct Investment (FDI) that will be attracted by the “harmonisation” of the current 21% rate payable, to the 12.5% rate payable in the Republic of Ireland. If the rate is lowered, around 34,000 businesses in Northern Ireland would stand to benefit, including 26,500 SMEs.

But here’s the rub. None of these businesses need to create a single extra job to benefit from this effective windfall and there is little or no evidence that FDI will come flooding in.

### **Ignoring the Evidence**

Indeed the Assembly’s support for this measure flies in the face of the evidence gathered in the Varney Review into Tax Policy published in December 2007 of which the then, UK Chancellor, Alistair Darling, stated:

*“I welcome Sir David Varney’s report, which provides a professional and in depth analysis of the case for a lower rate of corporation tax in Northern Ireland. **The Government accepts his finding that there is no convincing case for such a change.**”*

The issue was examined again, in depth, by PwC in January 2011 in a report titled “Corporation Tax - Game Changer or Game Over.” Just reading the Executive Summary of this report should send alarm bells ringing in Stormont. Amongst their findings they noted –

**“Low Corporation tax is not a key driver of investment for FDI locating in the UK, ranking 17th in a list that prioritised: language, culture and values; infrastructure; skills and proximity to markets.”**



They also noted that the Republic of Ireland had a lower rate of corporation tax for three decades before the 1980s and the Boom that was dubbed the Celtic Tiger. They noted too that other incentives were offered in the Republic and a more significant factor in respect of tax, is the total tax rate, representing the sum of all of the taxes payable in a jurisdiction.

Ominously, they state - ***“we could not find any clear evidence that low Corporation Tax alone would create sub-regional competitive advantage sufficient to create a disproportionate increase of FDI into the UK or Northern Ireland and increased competitiveness amongst indigenous companies.”***

PwC also reported claims made in a report by the Economic Research Institute of Northern Ireland (ERNI) in 2006, which asserted that cutting Corporation Tax could “create 180,000 new jobs by 2030.” But they noted that by 2010, the Northern Ireland Economic Reform Group had revised this “forecast” down to 90,000 jobs by 2030 and reduced expectations, to the hope that it might cut unemployment *“much further than would otherwise be the case.”*

Most recently the Scottish Government have abandoned a similar policy of reducing corporation tax there. First Minister Nicola Sturgeon said “Instead, we will use these powers to create a long-term competitive advantage, not through a blanket approach, but by using targeted changes in tax allowances.”

In plain words the Assembly is taking a reckless gamble with our economy. And they are doing so despite the relevant evidence that is freely available.

For example - **A DOE report - “An Analysis of the Social and Economic Impact of Loss of Jobs in Northern Ireland”**, which examined the closure of local vehicle licensing offices, noted –

***“A large proportion of the population is registered as being economically inactive, with social exclusion levels well above other parts of the UK; Many of our households live in poverty, with joblessness and skills deficiencies, important contributory factors.”***

And further that- ***“The percentage of the Northern Ireland workforce (aged 19-59/64) without any qualifications....significantly exceeds the UK average.”***

This is significant, not least because PwC point out that *“a gradual shift of manufacturing away from the ‘Western economies’ is being compensated for by a growth in FDI by business services, financial intermediation, pharma, research and software.”* However these sectors are concentrated in London, the South East and Scotland, where there is not the “skills deficiencies” and disadvantages identified in Northern Ireland. And yet the Assembly has just cut investment in Research and Development in our economy, notably in the Agri-food sector and made cuts in further education.

### **NI Survey of Hours and Earnings**

The fundamentals of our economy are outlined in another report - the NI Annual Survey of Hours and Earnings (19/11/14), which explains the relatively higher public sector pay compared to the private sector, by noting – *“differences in the composition of the respective workforces. For example, many of the lowest paid occupations, such as bar and restaurant staff, hairdressers, elementary sales occupations and cashiers, exist primarily in the private sector, while there are a larger proportion of graduate-level and professional occupations in the public sector.”* It also notes - ***“Full-time employees in Northern Ireland had the lowest median gross weekly earnings (£457) across the UK regions at April 2014.”***

Having established that we have the lowest wages in the UK, the Assembly has determined we will continue on that path, refusing to invest in the sort of skills and infrastructure that attract higher value FDI to London, the South East and Scotland. To make up the shortfall in revenue from reduced Corporation Tax, we will instead have to rely on attracting significant volumes of new and highly labour intensive FDI - at low wages. Another Delorean anyone?

All of this will be done despite the evidence in the DOE report that a loss of around 300 jobs from the public sector then, would – ***“not only affect the public sector, it could also have an impact on the private sector, given the multiplier effects. This is likely to be severely damaging to businesses in NI, particularly given the current economic landscape. Given how relatively weak the local labour market is, the timing of this proposal could not be worse and will be extremely damaging to the NI economy.”***

The “multiplier effect”, they explained, effectively means that 1.5 jobs will be lost in the private sector for every public sector job cut.

The economists also indicated that economic inactivity and unemployment ***“is expensive for government, for taxpayers and for society as a whole.”*** Using “a conservative figure” they estimated that ***“a reduction in employment of 300 in NI would represent an additional cost to taxpayers of £3m a year.”***

No one has yet estimated the impact that ‘a reduction in employment ‘of 20,000 public service jobs will have. But it won’t be good.

# Irish Congress of Trade Unions Supplementary Written Submission



## **Committee for Enterprise, Trade and Investment Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax**

*Evidence for Tuesday 26 May 2015*

*Northern Ireland Committee – Irish Congress of Trade Unions*

*Peter Bunting (Assistant General Secretary, ICTU)*

The purpose of the Inquiry is to examine how the two year period up to the devolution of Corporation Tax can be used to maximise the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs.

The first point which should be made is well-known to this committee. The trade union movement rejects the assumptions behind first devolving and then drastically cutting the rate of Corporation Tax. We believe that the arguments deployed in favour of cutting CT to the headline rate in the Republic of Ireland is based upon a profound misreading of the evidence.

Therefore, the first piece of advice we can offer is to tread carefully.

We have known since the Varney Report of 2007 that devolving CT would come at a considerable cost. That cut to the block grant is now estimated to being around £400 million per annum. We have argued that this is a very expensive gamble, as there is no guarantee of a single new job being created from the additions profits which would be kept by private businesses.

A more detailed report on Corporation Tax was written in 2010 by Richard Murphy, an expert in taxes and how they are avoided.

Murphy wrote that in the Republic of Ireland, the effective tax rate for many of its high-profile Foreign Direct Investors was and is far lower than the headline rate of 12.5%. Thanks to an inquiry in the US Congress, we know that Apple computers have enjoyed an effective rate of less than 2 per cent. We know that Google based their European headquarters in Dublin partly due to an effective tax rate of 3.4 per cent.

As Richard Murphy noted: *“Tax collected in Northern Ireland will always be higher than tax collected in the Republic of Ireland on identical commercial operations even if the tax rate is equalised. Indeed, if, as is the case for many companies the Republic actually offers the chance to pay almost no tax at all then no tax rate that Northern Ireland can now offer can out-do the offering that the Republic currently makes available.”*

Furthermore, it is important that the committee is aware of the clause in the legislation devolving Corporation Tax that financial services are excluded. Murphy predicted this in 2010: *“the reduced rate of tax could not be applied to finance and intra-group service companies under EU laws and these are the very companies to which the Republic is most attractive, even if they bring in remarkably little in the way of new net investment or employment now.”*

The legislation also carries, as predicted, *“cumbersome and costly transfer pricing rules to prevent tax leakage from the rest of the UK.”*

This is designed to ensure that Northern Ireland does not have an unfair competitive advantage over other parts of the UK.

This is in the spirit of the strange line in the Stormont House Agreement, which states:

*"The block grant will be adjusted to reflect the corporation tax revenues foregone by the UK Government due to both direct and behavioural effects but it will not take into account second round effects on other taxes."*

Now, like most of you in this room, I have negotiated many deals and agreements. I could never imagine signing up to something as vague as 'Behavioural effects'. Does that mean that any perceived loss to, say, FDI in Wales or Newcastle can be 'charged' to the Stormont Block Grant?

Also, NI gets the worst of the deal when it comes to 'second round effects on other taxes'. This seems to confirm a fear expressed by Sammy Wilson when he was Finance Minister, that taxes affected by increased employment, such as income tax, national insurance and VAT, would not be part of any calculation by HM Treasury when it came to estimating the cost to their coffers of reduced Corporation Tax.

So, it is there in the Stormont House Agreement. Northern Ireland will get all of the pain in exchange for vaguely defined gain.

The gain most boasted about by cheerleaders for the cut is that we will have an additional number of jobs ranging from 34,000 to 38,000 over the next 20 years. This seems a very back-of-the-envelope calculation, itself based on a theory that the private sector will increase jobs by 1% for every 1% cut in Corporation Tax.

It is just as likely that local business leaders will invest their money just as they did during the last time they have easy money to invest – they will invest in a property bubble like they did a decade ago, where those jobs that were created were the first to go when the recession hit after the bubble inevitably burst.

But let us not fight an old battle. Let us take the Westminster government at its word and assume that the tax is devolved and reduced to 12.5% in 2017. (Regardless of the debate in the Assembly chamber today.)

But we should also remember that similar claims were being made a decade ago when this campaign was led by Tony O'Reilly and the late Sir George Quigley. Back then, the headline rate for large businesses (which effected less than 4% of NI enterprises) was 30 per cent. It is now 21 per cent and will be 20 per cent within months. The UK headline rate will reduce as long as we have the Tories in power and each cut makes the supposed impact of a larger cut in NI less dramatic.

### **So what else do we have to attract FDI?**

The excellent researchers in this Assembly have done an excellent job in summarising the debate around what attracts FDI, and most of the submissions you have heard in this Inquiry have benefitted from the research.

Daniel Donnelly's paper for this committee identified several determinants, especially the availability of skilled workers. Every business organisation, in their evidence, cited skills as being key to better quality FDI.

For example, Ann McGregor from the NI Chamber of Commerce stated that: *"The supply of skills is not well aligned to labour market needs, and there is a brain drain."*

She then recommended: *"We encourage the Committee to make sure that the planned skills barometer is put in place and that there are strong targets set for reskilling."*

Congress is fine with that.

*“Secondly, prioritising investment in further and higher education is really important. Both FE and HE are facing cuts, around 15% for HE and 12% for FE, which will reduce drastically both the number of courses and students.”*

Congress is ok with that.

*“There must be actions to increase the inflow of highly skilled, experienced migrant and diaspora workers.”*

Again, we largely agree.

*“We also need to upskill the low skilled and improve basic literacy and numeracy. We are suggesting prioritising the budget in those areas, but upskilling the existing workforce will be important as well.”*

Again, the trade unions completely agree, and in fact we run one of the best value projects for upskilling the existing workforce – the Union Learning programme which is funded through DEL and which has not suffered cuts this year – a tribute to its value for money and effective outcomes.

We also agree with the Chamber that infrastructure is essential. However, the Chamber and Congress then diverge over what the term ‘promoting competitiveness’ is. They cite the *“Economic Advisory Group’s report on competitiveness in Northern Ireland produced in June 2013 concluded that Northern Ireland was forty-second of 145 countries.”* This is junk research. This is a survey of the opinions of managers in companies which employ more than 500 people. It bears very little relation to even most businesses in NI, let alone any quantifiable research.

The Chamber then list their familiar complaints about business rates (frozen for years), the cost of energy (classic market failure) and ‘red tape’, most of which is designed to keep workplaces safe, consumers protected and marketplaces fair for all competitors.

Exports are as much of a concern for us as the Chamber. We also believe that *“it is critical that very accessible continual support is there for the whole business life cycle from start-up, to growth, to export, again with a particular focus on potential exporters and access to finance.”*

We also agree that public procurement has a vital role to play in developing the export potential and innovation practices of local businesses. Like the Chamber, Congress *“would like to see the budget for export support increased, because it believes that it is essential for economic progress here.”*

At which point we would like to ask that question which is always thrown at us whenever we recommend investment over cuts.

*“Where is all the money coming from, then?”*

We have listed alternatives to austerity, the present budget and the whole financial implication of the Stormont House Agreement, and have been vilified by some for doing so.

At least we are consistent. We never say to the public that you can have Tory taxes with Labour spending.

After the Chamber delegation had finished their submission, the chair of this committee, Mr McGlone, stated: *“Investment is a key issue but just as much as anything else, the investment, how you make it, and the strategic delivery of it is important. We were out in Stuttgart a couple of weeks ago to see how the Germans do things, and it is certainly a bit of an eye-opener. A key part of that is planning and strategic drive.”*

These is something more to German success. A high degree of federalism and autonomy for the Lander, clusters of specialisation and the deep involvement in the decision-making process by representatives of the workers – Works Councils.

Germany is not a low-tax, deregulated, flexible environment. It baffles Anglo-American neoliberals. Everything shuts on Sunday. Families are subsidised. Public services are excellent and paid for by progressive taxation. Productivity is miles better than the UK.

Here is another comparison, which we will not find flattering.

The German government takes the leading role in the European Union. It defines it. It runs its economic policies and uses the weight of its 450 million citizens to add to its international influence.

I am glad to note, the concerns being expressed by the Chamber and the CBI on this pointless and damaging debate on having a referendum on EU membership.

Now, after the general election, the CBI in London is calling on their members to speak up for Britain's place in the EU. Nothing shows the problem we have with business' inability to think beyond the next quarterly report or tomorrow's share price, than the silence of (especially) exporters on the very real threat of the UK leaving the EU.

Bad for Britain – catastrophic for Northern Ireland.

Mr Kingston from the Chamber was right to tell this committee: *“Very clearly, we believe that membership of the EU is critical for business, going forward. We believe that Northern Ireland is particularly exposed to changes. Any changes in this area go to issues of business confidence and impact on issues like corporation tax. I had the opportunity to travel to Washington over St Patrick's Day and talk with not just the Invest NI team out there but with some American business representatives. I know just how important that whole issue of access to the EU is for their planning purposes.”*

Look again at your own research. The paper by Daniel Donnelly and Aidan Stennett on FDI determinants in European regions, which states clearly that access to the European market is essential. Incentives are available that do not contravene EU rules. Having clusters of specialised industries works. Existing traditions of industry, and culture of work and learning, the infrastructure of rail, road and cable, all attract quality FDI.

The CBI have argued, in their submission to this committee, that we should follow the lead of the Westminster government and make Industrial Tribunals too expensive for most people to bring a case against an abusive employer. How will that stunt boost exports? How will more jobs come from cutting the collective redundancy period from 90 days to 45?

The CBI also makes spurious claims about the public sector reform agenda of the OECD. We do not know what they OECD team will find out and recommend, and nor do we know how their recommendations will be received by this Assembly.

We cannot grow the economy by breaking things – our devolved employment legislation, our membership of the EU (which is far greater than the sum of its 'market'), and our public services, to pay for tax cuts for the wealthiest.

The Scottish government understands this. In March, the SNP government made clear that *“we have no intention to engage in a 'race to the bottom'. Instead, we will use these powers to create a long-term competitive advantage, not through a blanket approach, but by using targeted changes in tax allowances.”*

They dropped their plan to cut CT by 3 per cent. In her introduction to the strategy, the First Minister of Scotland states:

“We want to achieve more than simply a return to pre-recession levels of economic performance. We need to tackle the underlying challenges in our economy and labour market, increase the competitiveness and sustainability of the Scottish economy and reduce inequality.

*“We need to ensure that there are sufficiently skilled and well-paid job opportunities available, support the move to the low carbon age, take advantage of the opportunities presented by globalisation and technological change and ensure that the benefits of economic success are shared by everyone.”*

Then, she adds: “Creating a fairer society is not just a desirable goal in itself, but is essential to the sustained, long-term prosperity of the Scottish economy. Our approach to economic policy is based on the principle that delivering sustainable growth and addressing longstanding inequalities are reinforcing – and not competing – objectives.”

That is an ambitious plan which merits attention. It presupposes something quite radically different from anything else heard by this committee during this Inquiry. That this is a society and not an economy, and the latter should serve the former, not vice-versa.

The whole ideological thrust of the Stormont House Agreement, and its financial consequences, is premised upon declaring that the very top priority are certain measurements like the deficit and the fragile confidence of the Captains of Industry.

Our low-tax neighbour bears witness to that. It took a Northerner, Seamus Heaney, to remind a Dublin audience of the cost of getting your priorities wrong:

*“We are not simply a credit rating or an economy but a history and a culture, a human population rather than a statistical phenomenon.”*

We can write a different script, like Scotland, in which tackling inequality is as important as the standard measurements of ‘growth’:

*“Creating greater prosperity and fairness is a shared national endeavour. Only by working in partnership with the wider public sector in Scotland, the third sector, trade unions, businesses and communities, will we be able to create a society where the benefits of economic growth are shared more equally and where future economic growth is stronger and more sustainable.”*

There is an alternative for Northern Ireland, but we have to invest in it.

The Stormont House Agreement, if implemented, would give extra borrowing power to the Northern Ireland Executive. At present the plan is to use this money to remove jobs from our public services. This plan is misguided, short-sighted and ultimately self-defeating.

We propose using all of Northern Ireland’s resources to build a more stable and inclusive economy and these are just some brief examples of what that might look like.

The construction sector in Northern Ireland has lost thousands of jobs since the crash almost seven years ago. But the crash happened for a reason and we don’t want to return to the days of sky-high house prices and profiteering developers. We should use our construction sector to build better, safer, warmer homes for families in Northern Ireland.

The Stormont Executive could amend its rules and allow the Northern Ireland Housing Executive to borrow money in order to retro-fit homes across Northern Ireland to make them more energy efficient. Retro-fitted homes require significantly less energy to heat during winter leading to a reduction in energy bills. This reduction provides a small boost to the coffers of the household, but it also pays for the borrowing made by the NIHE. In the longterm we will have significantly reduced our carbon foot-print in Northern Ireland and built a sustainable climate friendly construction sector that may become a world leader.

We also need to look carefully at the types of jobs we are creating in Northern Ireland and how that is affected by our investment. Too often we hear about companies receiving massive cheques from Invest NI to create jobs in Northern Ireland. In many cases the jobs are poorly paid and short-lived. This is no way to build for the future. Instead of simply handing this money out we should use it to create the next wave of innovation here in Northern Ireland ourselves.

We know where the strength lies in Northern Ireland's economy from Agri-food to the creative industries. If we want well paid jobs in growing industries we need to be investing now so that we can lead the way in new technologies and new products in years to come.

Creating an 'innovation fund' will allow the state to provide long-term, committed and patient investment for the challenges facing Northern Ireland industry. It will also ensure that our new prosperity will be something that all citizens will share in.

Investing in our resources and our industries is important, but we also need to invest in Northern Ireland's greatest asset, its people. This means providing great education and lifelong learning, but it also means ensuring that no person in Northern Ireland will ever work their way into poverty.

Northern Ireland has a real problem of low paid jobs. At the very least we need to guarantee a Living Wage to every worker in Northern Ireland. Not only will this reduce poverty, it will boost household budgets which in turn will boost spending in our local shops giving a boost to the health of our economy overall. More equal societies create more prosperous economies.

Recently, the Tax Justice Network published an extraordinary thing<sup>1</sup>.

They outlined ten reasons why it is essential to defend the corporate income tax. In summary, these are:

1. Corporate income taxes raise essential revenue for schools, hospitals and the rule of law.
2. Less well understood is the fact that the corporate tax helps hold the whole tax system together: without it, people will stash their money in zero-tax corporate structures and defer or even escape tax entirely.
3. The corporate income tax curbs inequality and protects democracy. The tax charge falls largely on the wealthy owners of capital: without it, corporations and their wealthy owners free-ride off the public services paid for by others.
4. Corporate taxes enhance national welfare. So-called "competitive" tax-cutting is fools' gold, particularly for the larger economies.
5. Corporate tax cuts, incentives and loopholes ricochet around the world. A tax cut in one place may suck capital out of others and prompt other jurisdictions to follow suit, in a race to the bottom where the only winners are the very wealthiest sections of society.
6. The corporate income tax is particularly important for developing countries, which rely more heavily on it than rich countries do.
7. Corporate taxes can rebalance economies. Corporations around the world are hoarding cash, not investing it. Corporate taxes harness this idle cash and put it to productive uses, via government spending on education, roads and other public services.
8. The corporate tax curbs rent-seeking. Because rent-seeking tends to be more profitable than genuine productive activity, the corporate tax falls more heavily on it.

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1 <http://www.taxjustice.net/2015/03/18/new-report-ten-reasons-to-defend-the-corporate-income-tax/>



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9. Tax cuts and special incentives don't stop at zero: they turn negative. In this race to below the bottom there is no limit on corporations' zeal for free-riding off public goods and subsidies paid for and provided by others.
  10. Corporate taxes spur transparency and more accountable government. To collect the tax, states must put in place good tracking measures.

Over the past three decades, the benefits of income and the burden of taxes have shifted – the wealthy are being paid much more and are paying less tax than any time since the late 19th century.

It is not enough to impose policies which have, without fail, made more unequal the societies in which they have been tried, and then plead ignorance.

This cut will make things more unequal. It is a straight transfer of public money to large and profitable businesses who can do whatever they like with the proceeds.

It is being paid for by cuts to skills and education, austerity for our infrastructure and the enforcement of a new form of welfare – harsh, judgemental and grudging.

It is a policy which matches a landscape of food banks and zero hours contracts and pay day loan sharks and FDI from fly-by-night operators of call centres and pound shops.

It is a cheap and nasty policy and it will end in miserable failure.

Or, as has been said many times on this island: "I wouldn't start from here."

# Invest NI Written Submission

## **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 costsensitive 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 subsector 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 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

# Northern Ireland Electricity Written Submission

## NIE Briefing on Grid Capacity in Northern Ireland in the Context of Enabling Economic Growth



Submitted to the ETI Committee

Revision: 1

2 April 2015

## 1. Introduction

- 1.1. Against a backdrop of ensuring that, in a reduced tax environment, any barriers to economic growth in Northern Ireland are addressed, the ETI Committee has asked NIE to provide a “briefing on the shortcomings of the electricity grid in Northern Ireland”. This document is intended to inform the forthcoming oral hearing on 14 April.

This briefing document sets out NIE’s response.

- 1.2. The purpose of this document is to:

- Help inform the debate
- Provide clarity regarding grid capacity and how the need for reinforcement is being addressed
- Provide pointers to help agenda setting for policy makers
- Outline specific actions that NIE is taking and intends to take

- 1.3. The Committee additionally advised NIE that the oral hearing would also address issues around renewable energy and the grid. We are therefore also providing a document prepared for the Minister’s forum meeting on 30 March, which addressed these same issues.

- 1.4. The same grid has to cater for both the connection of renewables, and the connection of new or increased loads. While there is interplay between these two demands, in other respects the considerations are somewhat different.

- 1.5. Section 2 briefly describes the Northern Ireland electricity networks;

Sections 3 and 4 outline the regulatory framework and allowances;

Sections 5 to 7 outline the drivers for load related investments and how these are targeted;

Section 8 considers the capacity to cater for economic growth and proposes potential steps that can be taken to expand provision.

## 2. The Northern Ireland Grid

- 2.1. The “Grid” in Northern Ireland in fact consists of two distinct networks – the transmission network and the distribution network.

- 2.2. The transmission network consists of 275,000 volt (275kV) lines and 110,000 volt (110kV) lines, some 1500km in total, plus associated substations. Using a transport analogy, the

transmission system can be thought of as the “motorway”, moving bulk energy around the system.

The transmission network is owned, constructed and maintained by NIE. It is however operated by SONI as the independent Transmission System Operator (TSO). Since April 2014 SONI has also been responsible for transmission investment planning. This role was transferred from NIE to meet the requirements of the IME3 Directive.

- 2.3. The distribution network consists of 33,000 volt (33kV), 11,000 volt (11kV) 6,600 volt (6.6kV) and low voltage (400 volt / 230 volt) lines, some 45,000 km in total, plus associated substations. Continuing the analogy, the distribution network is akin to A and B roads.

NIE owns, plans, operates, constructs and maintains the distribution network.

- 2.4. There are circa 840,000 electricity customers in Northern Ireland. Currently there are no demand customers which connect directly to the transmission system. All such customers are therefore connected to the distribution network.

### 3. Regulatory Framework

- 3.1. As the Distribution Network Owner (DNO), NIE has a statutory duty to design and operate the electricity network in accordance with the Electricity Safety, Quality and Continuity Regulations (ESQCR). These regulations govern matters such as safety clearances to live equipment and maximum and minimum system voltage levels.
- 3.2. As the holder of a Distribution Licence in NI, NIE has Licence obligations to maintain network performance. The network performance requirements are set out in the Distribution Code (commonly referred to as the “D Code”) and detailed in the System Security and Planning Standards. Both the D Code and the Planning Standards are the subject of regulatory approval. The documents, quite technical in nature, are available on the NIE website.
- 3.3. NIE’s revenues, to cover both operating costs and capital investments, are set by the Utility Regulator (UR). The current price control period, referred to as RP5, is for 5 ½ years, and runs to September 2017.

### 4. Regulatory Allowances for Network Capital Spend

- 4.1. The current RP5 price control makes provision for a range of capital investments in the networks. These include provision for asset replacement, reinforcement to cater for renewables, and reinforcement to cater for growing load.
- 4.2. The allowance for distribution load related investment was £23m for the RP5 period. NIE is required to, and will, manage its related statutory and licence obligations within this overall allowance.
- 4.3. Transmission load related allowances are treated differently, due to the uncertainty of the larger transmission projects in terms of the detailed work requirement and the potential for significant variation in the projected project cost. These schemes are therefore covered by a mechanism whereby each major transmission scheme has to be individually justified and a separate capital allowance sought from the Utility Regulator.

SONI as TSO, in its system planning role, justifies the need for the scheme and carries out initial preconstruction work including achieving planning permission. NIE subsequently applies to UR for construction approval and then builds out the scheme.

- 4.4. Asset replacement is extremely important. The bulk of the transmission and distribution network was developed in the 1950s and 1960s, and many components now need to be replaced with their modern equivalents. This is essential for safety and operational reasons,

but also to protect power quality and continuity which is crucial for indigenous and incoming industry.

Over the course of the RP5 price control, NIE will spend a total of £217m on replacing transmission and distribution assets.

- 4.5. Regulators in setting regulatory allowances also focus closely on ensuring that companies are efficient, hence delivering value for money for customers.

NIE is demonstrably an efficient company. Its obligations under RP5 will be delivered against allowances which are set on the basis of NIE being the 5th most efficient of the 15 UK DNOs.

## 5. Drivers for Load Related Investment

- 5.1. The key drivers of load related investment are as follows:

- Load Growth – at the macro level, province wide growth in demand is relatively low (+0.4% in 2014). However, at the local network level, load growth at individual primary substation sites varies considerably. While some sites show negative growth a significant number of sites show a relatively high level of demand growth.
- Customer Connections – NIE's 'Statement of Charges' limits chargeability for connections to the work involved at the voltage level to which the customer is to be connected, and one voltage level above. Therefore "deep reinforcement", for example at 33kV, required to connect LV, customers has to be funded through NIE's allowance.
- Opportunistic Investment - NIE reviews and reprioritises load related investment plans where opportunities present themselves for efficient and cost saving reinforcement of the network. Examples are working in conjunction with Public Realms schemes, and with NIE's own asset replacement schemes.
- Distributed Generation – the connection of significant amounts of distribution connected generators has led to the need for investment in network reinforcement to release further generation capacity. The investment is required primarily to alleviate thermal overload and voltage rise on the electricity network. This work is required not only to facilitate renewable connections, but also to ensure the networks remain safe, and supply quality to existing customers remains within standards.

## 6. Targeting Investment for Load Growth

- 6.1. NIE carries out a continuous process of monitoring system demand at individual nodes such as primary substations. This allows comparison with the system capacity at each node to determine the level of utilisation and that compliance is maintained with both statutory and licence obligations.
- 6.2. This analysis work is undertaken at individual nodes throughout the year when reviewing available capacity for assessing new connection applications, and when planning for system outages to facilitate system maintenance or asset replacement.
- 6.3. A formal annual process is also carried out at the end of the winter period which reviews the peak demand for that year against system capacity at each primary node across the province. NIE uses this process to monitor the utilisation level at each site.
- 6.4. The annual information is compared against previous years to allow NIE to build an historic demand trend at each primary node which is extrapolated forward to forecast potential load growth at each site.
- 6.5. This forecast trend is further substantiated by using other internal and external sources such as; volumes and location of connections applications, DoE Area Plans, and development



plans from large customers and bodies such as Invest NI, Titanic Quarter and Belfast Harbour Commissioners.

- 6.6. This process allows NIE to compare future peak loads against system capacities to identify potential future ‘hotspots’ that may require reinforcement.
- 6.7. When assessing reinforcement options NIE endeavours to identify the optimum solution to maximise long term customer satisfaction whilst complying with statutory and licence obligations.

In considering options NIE is required to undertake a cost benefit analysis appraisal which will identify the “least cost technically acceptable” (LCTA) solution, the potential for developer/customer contributions (in line with NIE’s Statement of Charges) and taking account of proposed scheme life, critical variables and probabilities.

- 6.8. This overall process ensures efficient targeting of investment in a timely manner and permits the development of a longer term coordinated investment plan.

## 7. Examples of Load Related Investments Planned for RP5

- 7.1. The following are examples of network reinforcement projects programmed to be undertaken during the RP5 period. These projects are either complete or at various stages of development:

- Killyman Central / Moy Park - 33kV line upgrade
- Granville Central substation - 33kV line upgrade
- Maghera / Draperstown - 2 new 33kV circuits
- Cookstown – 1 new 33kV circuit
- New primary substation at Roslea (Newtownbutler)
- New primary substation at Tullyvannon
- Castlederg – 2nd 33/11kV transformer
- Limavady Town – 33kV line up-grade
- c12 primary 33/11kV transformer up-grades
- c17 individual network schemes at 11kV
- c100 individual network schemes at LV
- c35 distribution transformers

## 8. Capacity to Cater for Economic Growth

- 8.1. As described above, NIE carefully targets investment so that underlying load growth is catered for. In cases however where point loads increase, for example due to a new factory being built, or an existing customer installing a new production line, there can be a local capacity issue which requires reinforcement. This issue tends to be exacerbated where customers are located in more remote rural areas.
- 8.2. One might question why this is the case, and take the view that the network should be generally capable of dealing with increased point loads, regardless of location and without the delay involved in reinforcement. The issue with this is that such point load increases and their locations are not predictable.
- 8.3. There would therefore have to be investment across large parts of the network in anticipation of possible future point load growth. This would however mean the potential for stranded

investment and a consequent and unnecessary increase in overall tariffs to the general body of customers.

- 8.4. That being said, the investments to cater for underlying growth do in themselves create some “headroom” in the network that can be used by new customers or those increasing their load. This is because reinforcements are carried out using network components that have standardised ratings which may be in excess of the immediate reinforcement requirement. Recent examples include:
- Dungannon customer – increase from 4.6 to 6MVA – no charge
  - Omagh customer – increase 1.7 to 2.1MVA – no charge
  - Omagh customer – increase 1.5 to 2.5MVA – no charge
  - New customers at Dungannon Business Park: 1.2MVA, 1MVA and 85MVA – no charge
  - Co Tyrone customer – increase 3.2 to 3.5MVA- no charge
  - Cookstown – 1 new 33kV circuit (£1.5m)
  - New primary substation at Roslea (Newtownbutler) (£870k)
  - New primary substation at Tullyvannon (£700k)
- 8.5. There has in the past been some limited use of anticipatory investment – for example Invest NI has provided monies so that electrical capacity can be made available at industrial parks. This approach is particularly applicable to new loads and hence new factories or inward investments. There is of course still a risk of stranded investment, should investors decide on a different location for some other reason.
- 8.6. The approach described above could be extended through higher levels of investment – for example creating a “power park” in a selected area, which could then cater for significant levels of potential future loads. This type of approach could potentially involve transmission as well as distribution investment. SONI as TSO would be likely to have a view in this regard.
- 8.7. There is no doubt that these types of anticipatory investments could assist with economic development – however there would be significant costs involved which, if not funded through tariffs and hence by the general body of customers, would have to be funded through some other source. Clearly these are central policy questions that would have to be considered by DETI, UR and others.
- 8.8. NIE can contribute to this debate by helping stakeholders to consider what might be possible from a network perspective. To do this in a comprehensive way would also require the input of SONI.

We would suggest that an initial useful step would be to convene a workshop at which illustrative scenarios, and their scale of costs, could be explored.

This would be timely: NIE has already commenced work on its network investment plan for the next regulatory period, RP6, which will run from October 2017. Inherent in this process is formal engagement with domestic, commercial, institutional and industrial consumers and representative bodies, so that plans have been fully informed by customer priorities. The UR, CCNI and DETI are all involved in this process.

There is clearly therefore a window of opportunity now to develop thinking and policy on anticipatory network investment, and the costs and benefits of this, so that provision can be made, if necessary, in NIE's RP6 plans.

- 8.9. The cost of connecting to the electricity network is also a key consideration for customers.

Prior to the RP5 price control, NIE operated to a regime whereby 40% of the cost of connecting domestic customers was subsidised by the general body of customers. There was

no such subsidy for non domestic customers. This subsidy has now been removed, and all customers now pay the full cost of connection. NIE's connection charges are in accordance with its Statement of Charges, which is approved by UR.

- 8.10. The UR has published its plans to introduce contestability in connections in Northern Ireland. NIE welcomes this, and is working with the UR and stakeholders on the process to plan and put in place contestability.
- 8.11. In relation to the connection of renewable generation, there are many factors playing into current concerns. These are fully addressed in NIE's briefing document to the Minister for the meeting on 30 March, referred to at 1.3.

# NIE Briefing on Connecting Renewable Generation to the Electricity Network



**Submitted to DETI**

27th March 2015

Revision: 2

## 1. Introduction

- 1.1. While there has been very significant progress in Northern Ireland on the connection of renewable generation, in pursuit of the Assembly's target for renewables; many developers are frustrated by what they see as slow progress and rising costs to connect.
- 1.2. This briefing document sets out, in summary form, NIE's perspective on achievements to date, the technical issues that are now emerging, and what needs to be done to move things forward.
- 1.3. The purpose of this document is to:
  - Help inform the debate
  - Demonstrate what has been achieved
  - Provide pointers to help agenda setting for policy makers
  - Outline specific actions that NIE is taking and intends to take.
- 1.4. Section 2 sets out a summary of progress to date, the key issues, and what needs to be done to move forward. More detail supporting NIE's views can be found in the subsequent sections.

## 2. Summary

### **Progress to date**

- 2.1. Very good progress has been made on connecting renewables so far in Northern Ireland. NIE has in fact connected more renewable generation per customer than any other Distribution Network Operator (DNO) in the UK.
- 2.2. The 40% target requires circa 1600MW of renewable generation capacity to be connected. Over 1260MW of this is either already connected or in progress. Other connections in the queue are likely to bring the total towards and beyond 1600MW figure.
- 2.3. Transmission system reinforcements designed to enable up to 27% penetration versus the 40% target are advancing to plan.
- 2.4. Further connection of renewables beyond the 27% level will require a very sizable investment in the transmission system. Also significant investment will be required in the distribution system to enable further penetration of small scale generation.
- 2.5. Significant issues however have emerged on the distribution network, which is now "saturated" across much of Northern Ireland, particularly in the north and west. Many developers are frustrated by what they see as slow progress, rising costs to connect and inability to connect at some locations.
- 2.6. Apart from the investment required, there will be difficult technical challenges to overcome since the levels of renewable penetration in Northern Ireland are already at the limits of what such systems normally have to deal with.

### **What needs done to move things forward**

- 2.7. NIE will continue to pursue its “Project 40” initiative, together with all the relevant stakeholders.
- 2.8. In relation to distribution system saturation, NIE is in discussions with UR regarding a new tranche of investment to release capacity to connect small scale generation to the distribution system.
- 2.9. To move beyond this, we will also be proposing deeper technical analysis, supported by piloting to define what might be technically feasible for small scale generation. This work will also define costs and consideration will need to be given to how such investments can be funded.
- 2.10. Additional piloting will be needed on the distribution system to address operational issues being reflected up to the transmission system. NIE will work with SONI to define what is required, and will bring proposals to UR for consideration.
- 2.11. Further investment in the transmission system to enable moving beyond the 27% figure needs to be defined. SONI as Transmission System Operator has this responsibility, with inputs from NIE. The costs are likely to be very significant. NIE will work closely with SONI and UR to define options.
- 2.12. The North-South interconnector project must also be realised. While SONI is responsible for bringing the project to consented stage, NIE (together with ESB Networks for the RoI portion) has responsibility for building the project. NIE is currently working with ESB Networks, UR and CER to define a strategy to minimise the build phase.
- 2.13. The forthcoming review of the Strategic Energy Framework (SEF) should include review of the 40% target and its timing, including knock-on effects and investment required on the transmission and distribution systems. The review should also consider the interplay of large scale and small scale generation – for example the displacement of large scale generation by new small scale generation coming onto the system. NIE will participate fully in this process.
- 2.14. There is already a very substantial amount of renewable generation in the pipeline and we recommend a review of the current approach to incentivisation.

**NIE reiterates its full commitment to working through the various issues with all stakeholders.**

## **3. Background**

- 3.1. NIE has been working closely with stakeholders to enable grid connections for renewables, in line with meeting the Government’s 2020 target of 40% of electrical consumption from renewables. The 40% target equates to some 1600MW of installed electrical capacity. The ultimate figure will depend on the mix of generation types.
- 3.2. Renewables Generators fall into three broad categories: [1] Large Scale Generation (LSG); [2] Small Scale Generation (SSG); and [3] Micro Generation (MG). Importantly, each category connects at different voltage levels and presents very different challenges in terms of grid connection.
- 3.3. The transmission network in Northern Ireland consists of 275,000 volt (275kV) lines and 110,000 volt (110kV) lines, some 1500km in total, plus associated substations. Using a transport analogy, the transmission system can be thought of as the “motorway”, moving bulk energy around the system.
- 3.4. The distribution network consists of 33,000 volt (33kV), 11,000 volt (11kV) and low voltage (400 volt / 230 volt) lines, some 45,000 km in total, plus associated substations. Continuing the analogy, the distribution network is akin to A and B roads.

- 3.5. LSG will contribute the major part of the 2020 target with installations typically in the size range 5MW to 40MW. LSG mainly takes the form of wind farms but solar farms are likely to play a more significant part going forward. LSG connects to the transmission network (at 110kV) and the distribution network (typically at 33kV). LSG output is typically under the direct operational control of SONI, with aspects of control being the responsibility of NIE.
- 3.6. SSG takes the form of single wind turbines, anaerobic digesters or small solar installations in the size range 20kW to 500kW. Popular sizes are 250kW for single turbines and 500kW for anaerobic digesters, aligning with current incentive (ROCs) bands. SSG connects to the distribution network; normally to LV and 11kV lines fed from 33kV/11kV primary substations. SSG output is not controlled.
- 3.7. MG takes the form of much smaller sizes in the range of 4kW to 12kW. Typical examples are photovoltaic (PV) panels on domestic rooftops. MG normally connects directly to customer premises at 230V single phase or 400V three phase. Whereas applications for LSG and SSG are assessed in some detail to determine their impact on the NIE distribution network, most MG is connected on a 'fit and inform' basis, in a category referred to as 'G83 connections'. This means that NIE has very limited control over the rise in G83 connections.

#### 4. Progress to Date

- 4.1. While recognising that many developers have been frustrated at delays and costs associated with their connections, in overall terms very significant progress has been made in Northern Ireland.
- 4.2. At this point, some 20% of consumption from renewables is being achieved with c760MW of generation connected and a further c500MW 'committed' to connect. Of the c760 MW connected, some 76MW relates to small scale generation and 47MW to micro generation.
- 4.3. When compared to the rest of GB, NIE has connected the highest level of renewables to date, relative to customer numbers, of all the Distribution Network Operators (DNOs), at a rate of c780W per customer as of July 2014. (This rate for NIE has now increased to 910W per customer). The table below illustrates this.

**Table comparing levels of renewables connected per customer<sup>1</sup>**

DNO	Customers (million)	Generation connected to date (kW)	Generation Connected (kW)/ Customer	RANK
NP	3.9	410,242	0.11	6
UKPN	8.1	622,000	0.08	7
ENW	2.4	1,024,000	0.43	3
SP	3.5	2,700,000	0.77	2
SSE	3.7	1,200,000	0.32	4
<b>NIE</b>	<b>0.84</b>	<b>652,000</b>	<b>0.78</b>	<b>1</b>

- 4.4. Further, this considerable achievement has been achieved against a background of unique technical challenges due to the nature of the electrical networks in NI. These challenges are outlined below.

<sup>1</sup> ENA Networks report- 'Connections to the Distribution Network- briefing Note' Figures as of July 2014

## 5. Overall Network Challenges

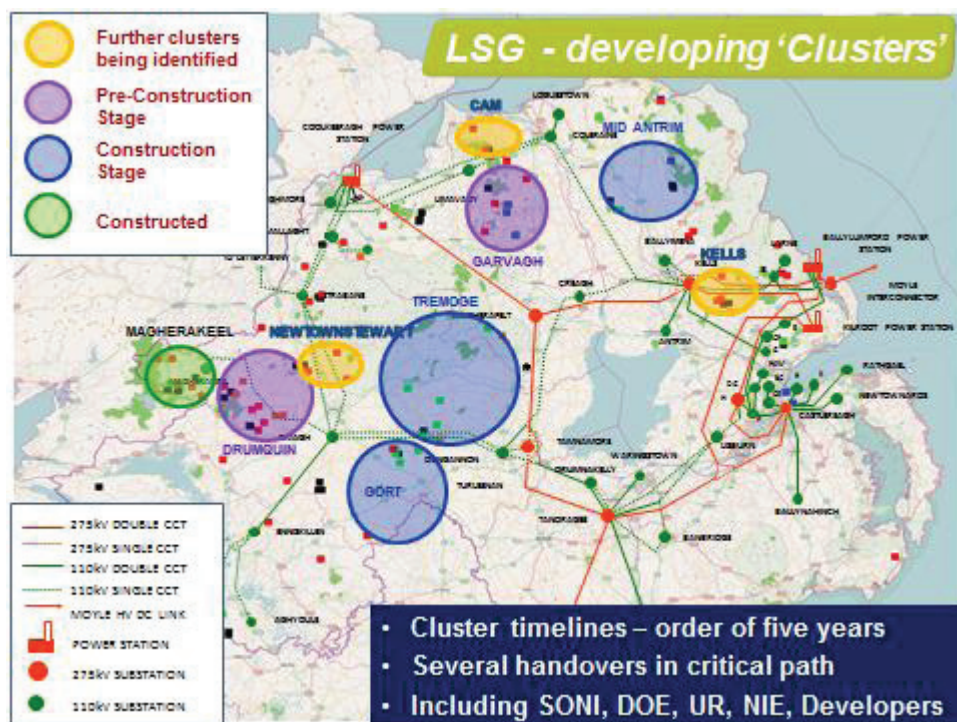
- 5.1. All DNOs are facing the central issue that, historically, networks were designed to bring electricity from large, centrally located power stations, in one direction through the networks, ultimately to customers' premises. That model is changing rapidly, with the advent of large amounts of smaller scale generators scattered across the networks, multi-directional power flows, and emerging approaches such as energy storage, Aggregated Generation Units (AGUs) and Demand Side Units (DSUs).
- 5.2. NIE faces these same issues; however they are magnified in Northern Ireland for two reasons.
- 5.3. The first reason is the very high existing and projected level of penetration of renewables in NI, as already highlighted, coupled with the nature and capacity of the distribution network.
- 5.4. While the NIE network serves 'demand' customers well; it is inherently less receptive to dispersed in-feeds of renewables generation than is the case with most GB DNOs. During rural electrification in the 1950s and 1960s, NI (rightly) adopted a modest approach to serving low rural load densities example through lighter overhead line construction and greater use of single phase versus three phase lines. NIE has 3.5 times<sup>2</sup> the total distribution overhead line per connected customer compared to the GB average because of the dispersed population.
- 5.5. The second reason arises from the location of large scale renewable generation. While other technologies are starting to emerge, wind has historically been the key contributor. The best locations for wind energy in NI are mostly in the west; however the population (load) centres are concentrated in the east. As a result, the 'backbone' transmission network requires strengthening to cope with the transport of wind energy from west to east.

## 6. Large Scale Challenges

- 6.1. To address this "west-east" challenge, NIE developed a strategy in conjunction with the Utility Regulator and the industry which deals with transmission reinforcement in the form of the 'Medium Term Plan (MTP)' to enable around 27% (vs the 40% target) to be achieved. This plan reinforces the transmission overhead line and substation system in a series of customer funded investments totalling £60m running to 2017.
- 6.2. A related initiative is the use of "cluster" substations to connect large scale generators, as illustrated below. With this approach the transmission network is extended to the epicentres of groups of large scale wind farms.

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2 Ofgem, '2008/09 Electricity Distribution Quality of Service Report', 18 December 2009, Table A2.6 GB average total km overhead line 21,823 km; GB average customers 2,049,496: GB average overhead line/customer= 0.011km/customer \* Figures based on average of 13 DNO's as LPN has no overhead line network. NIE total km overhead line 29,886; NIE total customers 840,000: NIE average overhead line/customer= 0.0355



- 6.3. This approach and the associated charging method benefits, firstly, in enabling core network infrastructure to be ready ahead of connection.
- 6.4. The 'cluster' approach also reduces overhead line lengths and hence minimises environmental impacts, in line with NIE's responsibility to develop an efficient infrastructure. It will be the primary method of connection for achieving 2020 targets, with these targets in the main being met through connection of large scale renewables. Note that further significant reinforcement will be required to enable the transmission network to deal with renewables levels in excess of 27%. This is explored later in section 12.
- 6.5. Importantly, while transmission reinforcement helps connection of LSG, it does not immediately address issues around SSG or MG which attach to the distribution network.
- 6.6. This has led to increased difficulties in trying to attain wayleaves for renewable projects. This has two effects – it has the potential to delay larger projects due to protracted negotiations and/or DETI referrals and it also increases costs due to landowners demanding significant one-off payments to let this infrastructure be built through their land.

## 7. Small Scale and Microgeneration Challenges

- 7.1. Unfortunately, circumstances relating to connection of SSG to the distribution network present challenges less readily resolved, albeit NIE is working hard with industry stakeholders to address this situation as below.
- 7.2. The 'sparse' nature of NI's population, particularly in the west, has by necessity led to a distribution network of greater length per connected customer and of lighter construction than is the case, in the main, with GB network operators (DNOs). The network length factor is illustrated in the following table.
- 7.3. The high levels of incentive for SSG and MG renewables, introduced in 2010 and unique to Northern Ireland, have led to unprecedented levels of applications.
- 7.4. Furthermore, the dispersed rural population densities mean the local 'load sink' for generation is often much smaller by comparison with similar UK DNO networks, resulting in



generation output in NI being 'pushed' further up the network where it then impacts on the 33kV network leading, for example, to reverse power flow through substation transformers.

- 7.5. These features of the NIE network significantly limit the potential to connect small scale generation, albeit NIE has connected some 120MW of SSG and MG with a further 110MW+ committed in the work pipe, which will bring the total above 230MW.
- 7.6. This quantum of SSG and MG represents a very large amount of 'noncontrolled' generation connecting to NIE's distribution network and proportionately higher than being connected in the case of GB DNOs, leading to serious congestion with network reinforcement now being required for many connections.

**Table comparing number of customers per km of overhead line<sup>3</sup>**

DNO Owner	DNO	Total Length of OHL (kms)	Customers	Customers/km of OHL	RANK
NP	NEDL	14,913	1,568,612	105	9
UKPN	YEDL	13,586	2,247,727	165	12
	EDFE	34,583	3,496,181	101	7
	EDFS	12,763	2,229,279	175	13
ENW	ENW	13,053	2,356,612	181	14
SP	SPD	21,118	1,991,331	94	6
	SPM	21,444	1,482,550	69	4
SSE	SSEH	31,551	729,290	23	1
	SSES	27,470	2,905,434	106	10
WPD	CNE	22,750	2,591,542	114	11
	CNW	23,856	2,435,566	102	8
	WPDS	18,164	1,520,440	84	5
	WPDW	28,459	1,088,889	38	3
	<b>NIE</b>	<b>29,886</b>	<b>840,000</b>	<b>28</b>	<b>2</b>

- 7.7. As a result, the cost of connections chargeable to developers for reinforcement of the 11kV network has risen markedly over the past two years to the point of making many projects uneconomic. This increase in costs arises because with more generators connecting to each 11kV circuit in congested locations, the circuit needs strengthening at significant cost, with these strengthening costs chargeable to developers.
- 7.8. In addition, the cumulative impact of connections to the 11kV network has led to power being 'pushed up' to the higher voltage levels, resulting in capacity limits being reached at many 33kV/11kV primary substations and leading, unfortunately, to a situation where NIE is unable to make offers to connect in these locations, unless a technical remedy can be found, and the necessary funding put in place.
- 7.9. Work to remedy these 33kV constraints is not currently chargeable to developers. NIE approached the UR in 2013 in respect of lower order investments at 33kV/11kV primary substations that might release further headroom. As a result, £2.3m of funding was agreed and this enabled a further approximately 100 projects to proceed, equating to around 30MW.
- 7.10. NIE also brought forward a proposal as part of the Competition Commission (CC; now the Competition and Markets Authority) RP5 price control referral process, to make further monies available to address 33kV constraints. The CC determined that further investment in this area was 'not in the public interest'.

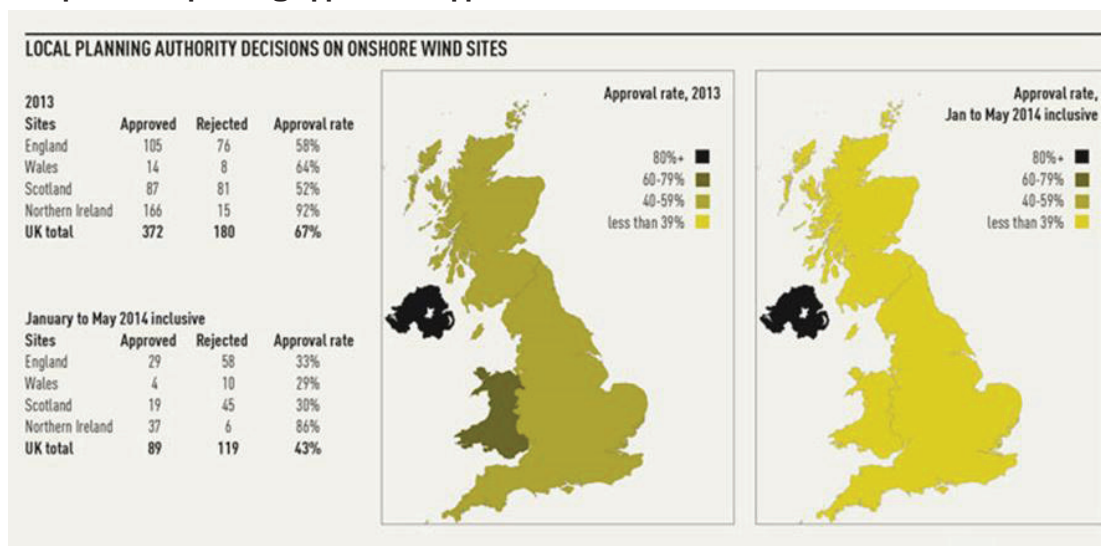
3 Ofgem, '2008/09 Electricity Distribution Quality of Service Report', 18 December 2009, Table A2.6

- 7.11. The NIE distribution network is effectively now at saturation point, particularly in the west. NIE had previously issued offers to applicants with connection conditional on further investments being agreed with the UR. However, following a formal dispute process, the UR concluded that NIE should not issue offers conditional on such investment approval.
- 7.12. NIE and the UR outlined the situation in an 'agreed statement' published on 15 August 2014. This statement explained the reasons for capacity constraints and outlined the work NIE was undertaking to explore alternative connection methods. Developers were provided with a choice of either withdrawing from the application process, with a refund of the application fee, or remaining in the process and retaining their queue position until such time as any alternative method of connection was confirmed or otherwise.
- 7.13. Following on from this position statement, NIE withdrew some c80 conditional offers and, since that point last year, has been unable to offer connection to a further c300 applicants. In most cases where offers were withdrawn or not made, as above, most applicants have chosen to remain in the process and await the outcome of work being progressed by NIE and other key stakeholders as part of NIE's "Project 40" initiative.
- 7.14. The Project 40 initiative and work to remedy the challenges facing SSG is described in more detail later in the paper.
- 7.15. It is vital that expectations as to what a Managed Connections approach could deliver, are kept in check. This is for several reasons.
- 7.16. Firstly, the technical research that NIE has conducted to date does not point to any similar schemes of scale that have been implemented elsewhere. It is also likely that any such scheme would still not be applicable in all cases; there would still therefore be disappointed developers.
- 7.17. Secondly, even if a suitable technical approach can be found, there is likely to be a significant funding requirement. SSG customers will either have to pay more to connect or NI customers are going to have to subsidise this deep reinforcement through tariffs.
- 7.18. In the event of NI customers funding the necessary reinforcement, there would have to be a clear view taken of value for money. This is essentially an energy policy matter. To address this fully, comparison would have to be made with the cost of connecting an equivalent amount of large scale generation, and whether that represented better value. A complete analysis would also look at the extent to which new SSG can displace existing LSG, which has already been connected, enabled by customer funded transmission reinforcement.

## 8. The Generation Queue

- 8.1. The generation queue comprises applicants awaiting quotation, those with offers who have not yet accepted, and those who have accepted an offer. Before an application is accepted by NIE the applicant must have secured planning permission.
- 8.2. This approach ensures that capacity is not reserved without commitment from developers and has served the industry well. Management of the queue is a critical part of renewables delivery. However planning approval rates are relatively very high in Northern Ireland hence enabling a high flow of applications to NIE.

## Comparison of planning application approvals for onshore wind sites in UK<sup>4</sup>



- 8.3. The LSG queue is of an order of 450MW with c300MW due to connect by March 2017 in line with the current incentives period. The SSG queue is of an order of 140MW with c100MW expected to connect before March 2017 when the current ROCs incentives cease.
- 8.4. Importantly, not included in the above, there are in excess of c300 SSG connections in a form of 'suspense' awaiting the outcome of work to establish if alternative connections methods might be deployed i.e. in the form of 'managed connections', and assuming that funding would be made available. A summary of the queue status (including connected values) for LSG and SSG is presented below.

	Connected		Committed		Offer Issued		Applied		On Hold		Total
	MW	Sites	MW	Sites	MW	Sites	MW	Sites	MW	Sites	MW
<b>LSG</b>	<b>640</b>	35	<b>395</b>	23	<b>61</b>	3	<b>212</b>	15			<b>1,308</b>
<b>SSG</b>	<b>77</b>	330	<b>107</b>	474			<b>30</b>	142	<b>49</b>	312	<b>263</b>
<b>MG</b>	<b>47</b>	8,800									<b>47</b>
<b>Total</b>	<b>764</b>	9,165	<b>502</b>	497	<b>61</b>	3	<b>242</b>	157	<b>49</b>	312	<b>1,618</b>

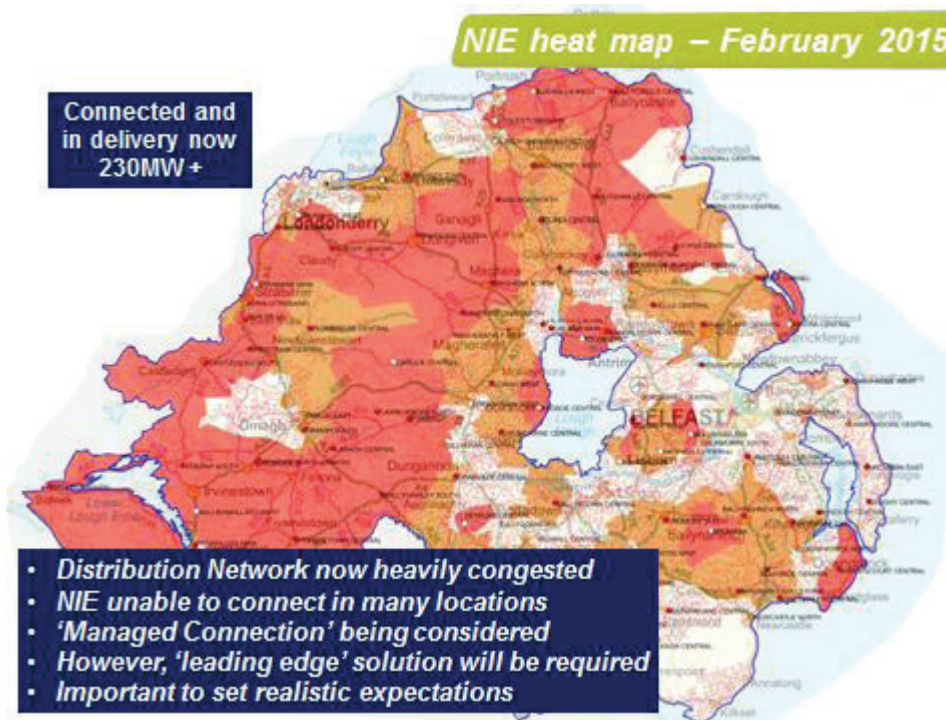
- 8.5. The amount of work in the queue including the level of committed generation, i.e. offers accepted but projects not yet connected, is of a very high order, with NIE second only to Scottish Power in ranking within GB DNOs on a per customer basis.
- 8.6. It should be noted that, of the circa 1600MW of renewable generation capacity required to meet the 40% target, over 1260MW of this is either already connected or in progress. Other connections in the queue are likely to bring the total towards and beyond 1600MW figure.

## 9. Information Sharing

- 9.1. NIE has progressively enhanced information available to developers on the NIE website to assist them in understanding how to progress with a connection application and to provide status information for example in relation to progress with clusters and congestion of the distribution network.

<sup>4</sup> <http://utilityweek.co.uk/news/planning-gets-political/1017952#.VQFmddlFDIU>

- 9.2. To assist SSG in particular; a 'heat map' of the distribution network is provided and updated on a regular basis. This presents an overview of distribution network congestion in relation to SSG.
- 9.3. To further assist developers a network mapping application is now available on the NIE web site. This allows developers to gain a better understanding of where their proposed generator might link into the NIE network and assists them in arriving at a view of whether a connection may be viable or otherwise before proceeding with a formal application to NIE.



- 9.4. NIE has received very positive feedback on these 'web based' applications and will, through engagement, continue to develop the information available on the web site to further assist developers.
- 9.5. NIE regularly meets with and provides information updates to individual developers, larger developers and interested parties through various forums including the Renewables Grid Liaison Group (RGLG), CAFRE and DARD events, council meetings and NIRIG events. This is in addition to stakeholder engagement through the Project 40 subgroups.

## 10. Project 40 – Supporting Renewable Connections

- 10.1. Given the many challenges being faced; Project 40 was established by NIE in May 2014 as an initiative to support enabling of large scale, small scale and microgeneration renewables connections in line with the Northern Ireland Strategic Energy Framework (SEF) 2020 targets for energy consumption from renewables in Northern Ireland.
- 10.2. Project 40 was tasked with assessing UK best practice and considering a range of technical and commercial options to optimise network access and the delivery of renewable generation to the NIE network.
- 10.3. As part of Project 40, NIE has engaged with a number of GB DNOs as well as attending various forums including the Energy Networks Association (ENA) which are considering similar challenges to those faced by NIE in the connection of renewables. NIE will engage more widely with GB DNOs as Project 40 progresses.
- 10.4. A number of working sub-groups has been established comprising technical, commercial, financial and legal representation from NIE, together with representation from SONI,

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developers, the Utility Regulator (UR), the Northern Ireland Renewables Industry Group (NIRIG), the Ulster Farmers' Union (UFU), the Department of Enterprise Trade and Investment (DETI), the Department of Agriculture and Rural Development (DARD), the College of Agriculture Food and Rural Enterprise (CAFRE) and other stakeholders where appropriate.

- 10.5. The focus of the working sub-groups is to collaboratively develop technical and commercial solutions and initiatives to improve access for generation applying to connect to the NI network, and where appropriate to expedite connection delivery.
- 10.6. The significant areas in focus for LSG include: arrangements to expedite delivery timelines for cluster connections; developing (in conjunction with SONI) generation connection design policy to manage 'reactive' power; assessing the technical limitations of long cable connections and for SSG: developing alternative approaches connection alongside work on MG; to assess multiple micro solar applications. Project 40 is also addressing a number of outstanding commercial / charging protocols for LSG, SSG and MG.
- 10.7. In respect of the acute issues facing SSG; a number of potential approaches have been considered by the Project 40 SSG sub-group around alternative connection methods. Considerable work has already been completed by NIE and an initial view formed on a potential alternative connection method. This approach, sometimes referred to as a 'Managed Connection', (more information in Appendix A) has been shared with DETI, the UR and the industry including DARD and UFU within sub group workshops.

## 11. Timelines and Funding

- 11.1. Whereas the GB DNOs have had access to a low carbon fund of some £500m to support research into more automated approaches to defer investment with this being linked to the connection of renewables; NIE has not had access to this or any similar fund. Proposals for funding in this area were put forward as part of NIE's RP5 price control were rejected by the CC.
- 11.2. NIE has however completed scoping a pilot study with a view to being positioned in the last quarter 2015 to decide on the technical viability or otherwise of a managed connection arrangement. Work will also continue with SONI in parallel over the next period to consider the impact of SSG from their viewpoint.
- 11.3. NIE is also working closely with the UR to finalise the Project 40 managed connection consultation document which will take account of important principles around managed connections and also possible changes in the approach to chargeability i.e. the extent to which developers might pay for costs of managed connection or other 33kV works. We plan to issue this consultation document early in Q2 2015.
- 11.4. Subject to suitable funding arrangements being agreed with the UR, NIE expects to be in position to roll out a managed connection, if this is ultimately proven workable, in the first quarter 2016.
- 11.5. Separately and in certain cases, a range of modest 33kV network investments at primary substations would increase the level of acceptable reverse power at specific locations, although the issue remains as to how these 33kV investment costs should be allocated. This work if undertaken would be complimentary to the introduction of managed connections or would stand on its own as a method of increasing headroom. It is estimated around 30MW could be realised from a further investment of c£2m.
- 11.6. NIE is currently in discussions with the UR around funding.

## 12. High Level Financial Impacts - Relating To Transmission Reinforcement

- 12.1. Transmission network reinforcement to enable renewables has been ongoing in the form of the medium term plan, expected to complete by end 2017 at a cost of some £60m to the NI customer base.
- 12.2. Beyond this, more sizable investment, c£420m (NIE estimate of cost) will be required to move beyond 27%, towards the 40% target. These costs are for the North-South interconnector, and other significant transmission system reinforcements.
- 12.3. It should be noted that, in line with the EU IME3 Directive, NIE's transmission planning function was transferred to SONI in May 2014. The costs of moving from 27% to 40% are therefore now subject to SONI revision, with inputs from NIE.

## Appendix A - The 'managed connection'

Where the total generation connected to a specific 33/11kV primary substation exceeds the available load at that substation at any point in time, reverse power flows back up through the primary substation to the upstream 33kV network. These power flows, referred to as 'reverse power' may result in specific network operational limits being exceeded at the more congested primary substations.

The situation may be remedied in different ways through a more automated approach or through more conventional investment or a combination of both.

As network load and aggregated generation output are variable, there is the potential to connect additional generation to the network to utilise the headroom that results at times when the aggregated generation output is lower than the reverse power capability of the specific substation.

However, when generation output approaches the acceptable level of reverse power, it would be necessary under this approach to be able to control the aggregated generation output to within these limits. This automation / control arrangement is referred to as 'reverse power control'.

The control function would at times require generators outputs being reduced to zero in a controlled manner to protect the network from any excursions outside these network imposed limits. This central control would be based on ensuring predefined limits for the transformers and associated equipment, or the upstream network, are not exceeded. The sequence of generator disconnection would be in a pre-defined order.

Managing connections based on reverse power control only, would still require reinforcement of the local 11kV network to maintain statutory voltages on the network, therefore connection charges to developers will, unfortunately, not reduce. NIE did consider additional local control (referred to as voltage control) of generators which might have removed the need for such reinforcement however this form of control, for SSG, was found to be unproven in the GB DNOs.

It should be noted that additional costs may also apply as specific control and communication arrangements are required to manage reverse power. This may be of particular significance to smaller installations as additional costs may affect the financial viability of smaller projects.

Also by introducing a form of control, the generator is likely to see some level of output reduction depending on the specific circumstances at a particular primary substation.

This is a highly complex issue that involves estimating the level of expected constraints and the developer factoring this into their business case.

The mix of generation is therefore critical to the assessment by the generator developers of the likelihood of constraint occurring. NIE has drafted a consultation document as part of the Project 40 SSG sub group designed to test the principles of a managed connection solution in line with the above and has invested considerable time and effort into shaping a pilot trial to test the viability, or otherwise, of this approach.

The managed connections approach would therefore require NIE to monitor power flows at 33kV/11kV primary substations and disconnect generators in some pre-agreed order to avoid substation capacity and safety limits being breached. Combining this more automated solution with further conventional investment at primary substations would appear at this point to be the best way of exploiting remaining headroom on the distribution network. In any event therefore; to remedy this situation and provide any further headroom for connections will require further investment in the distribution network, with this investment potentially taking the form of some combination of conventional reinforcement and network automation.

Also, because of the high levels of generation being connected to the distribution network and the potential for the managed connection approach to take SSG to an even greater level; NIE are now engaging closely with SONI to assess the impact of higher levels of SSG connect

given that SSG is not controlled by SONI and therefore the impact of increased levels of SSG must be considered from a forecasting and operability view point and dealt with, in part, through increased curtailment of LSG.



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## Member of Public Written Submission

From: Linda Breeze [mailto: ]  
Sent: 21 January 2015 21:57  
To: +Comm ETI Public Email  
Subject: Re: Corporate tax

Here is another addition.

Control of VAT, income or any other tax is unlikely to be devolved, but the power to vary others - business rates, air passenger duty - devolution of stamp duty land tax and landfill tax might be. New local taxes could be allowed.

Linda Breeze

On 21 January 2015 at 21:08, Linda Breeze < > wrote:

Dear Committee,

The problem is terrorist activity, over-reliance on old industries, a lack of inward investment in new industries, low cost foreign competition, and direct rule combined to decimate our industrial base. Manufacturing jobs were replaced by jobs in the public and service sectors and many young people left, never to return.

But the more businesses and companies there are the better to deter any kind of negativities especially against terrorism.

Lowering corporation tax is not a panacea for all our ills. But it will stop companies from setting on each other, and it will have no competition with each other. It will encourage businesses to move overseas where there is an attraction of paying lower corporate tax. We have to make ourselves attractive to foreign investors by having a well-educated pool of labour, and a local government that is receptive to the needs of industry.

We are now in a position to get control of corporation tax powers, an opportunity that may not be repeated. If we do not grasp it, future generations will pay the penalty. It is not a risk, the risk is in not doing it. If we want a better future for our children we need to take all these steps even if it is at the cost of a reduction in Government spending in the short-term. Politicians need to set aside ideological differences, and concentrate on creating wealth for the people.

The more businesses or companies we have, the more money is available for Stormont, as well as job creation. We also have growth while more people work, they contribute to it. The creation is 50-60 thousand jobs. We will get more if we get more businesses and companies.

But if we are going to get more companies in and helping small businesses to survive by introducing lower corporate tax. It would be a life line, and there could be a dramatic reduction in businesses going bust or be insolvent.

Northern Ireland would also be in the same competition as Republic of Ireland, and would promote more free trade, and be able to rely on each other more in buying and selling. Republic of Ireland would be able to bring more growth to Northern Ireland and vice versa.

While Stormont can afford to pay the difference in corporate tax to start with, it cannot be permanent. That is because we have to take account of new businesses and companies setting up in NI who also wants to benefit from lower corporate tax.

It is feasible to think of having only one tax instead of so many taxes, and some may be hidden taxes that may have been overlooked. We have to look at other taxes that would

benefit Stormont without effecting companies and businesses. They have to pay extra on top of corporate tax.

So we need to redress the balance so Stormont have some monies available to keep paying corporate tax, and be able to let more businesses and companies have lower corporate tax.

These hidden taxes, say business rates for example will benefit Stormont to help set up a fund to bail out businesses and companies in trouble.

There are different ways we can look at it I think. We also have to take into account that when one business or company fail, we have to nip it in the bud to avoid a chain reaction of a whole collapse of these particular groups. There has got to be a give and take method in all this.

Hope that helps and do contact me if you wish to have more clarification.

I trust that this will satisfy you.

**Linda Breeze**

Representative for NI and Political Adviser.

# NISRA Written Submission



## NORTHERN IRELAND ECONOMIC STATISTICS – JUNE 2015

### Introduction

This submission contains an overview of the quality and type of Northern Ireland economic statistics produced by NISRA as requested by the Enterprise Trade & Investment Committee. The information is provided in advance of NISRA officials' attendance at the Committee on 9th June 2015.

### Summary / Background

NISRA published a range of official statistics reports (monthly, quarterly or annual) including 18 on business outputs, 25 bulletins on the labour market and 21 tourism related publications in the year 2014/15. The information is based on a range of business, household and tourist surveys conducted by NISRA throughout the year. They form part of the wider UK suite of economic surveys administered by the Office for National Statistics (ONS) and typically contribute the NI element to UK level results. A summary of NISRA economic and business surveys is provided in **Annex A**.

In addition, NISRA had set as an Agency target in 2013/14 and 2014/15 to assess the feasibility of developing and then producing Input-Output Tables for Northern Ireland. Input-Output Tables are key elements of the system of economic accounts used to measure the performance of an economy to international standards. This is a complex undertaking involving the use of key household, business survey and administrative datasets to produce indicators such as Gross Domestic Product on an income, expenditure and output basis. This is an ongoing project, started in 2012, that aims to produce the capacity and expertise within NISRA that will enable a full set of Economic Accounts to be produced for NI, similar to that in Scotland. A range of expert users of economic statistics have been involved in their development to ensure the resultant statistics meet user needs in line with the UK Code of Practice for Official Statistics.

## **Economic Statistics - Outputs**

### *1. Business Statistics*

NISRA produces a range of statistical outputs that measure the performance of the NI economy. Short-term indicators of performance are available from the Indices of Services, Production and Construction. The Northern Ireland Composite Economic Index utilises the results of the short-term series to produce a quarterly measure of economic activity for Northern Ireland. The Composite Index currently relies on the Output based definition of GDP and public sector jobs. However, NISRA is currently investigating the potential to include income and expenditure based elements of GDP, following discussions with Scottish counterparts. Other regular survey based measures include estimates of the value of annual Research and Development activity, biennial innovation activity and occasional ad-hoc surveys e.g. relating to businesses' Access to Finance. It should be noted that for a number of the main official statistics business surveys (Annual business inquiry (ABI) and the Business Register Employment Survey (BRES) NISRA produces results on a more timely basis than is available for other UK countries and regions (by 6 months for the ABI and by 3 months for BRES).

### *2. Labour Market & other economic statistics*

NISRA labour market information is available monthly from the Labour Force Survey and the Jobseekers Claimant Count releases as well as annually in the form of earnings from the Annual Survey of Hours and Earnings. In addition, details of employee jobs are available on a quarterly and annual basis. The annual measures provide employment by geographical area (e.g. District Council) within Northern Ireland as well as by detailed industry sector, on an equivalent basis to measures in Great Britain. Information on House Prices is available on a quarterly basis and there are a series of quarterly and annual reports on the performance of the Tourism Sector. Public sector finances information is available annually through the Net Fiscal Balance report, which is produced by economists in DFP. This report details the fiscal position in Northern Ireland for each financial year, estimated as aggregate public expenditure less aggregate public revenue.

### *3. Exports statistics*

NISRA has also recently published a methodology paper and provisional results providing a much more comprehensive measure of Northern Ireland exports, as recommended by the Barnett Review of Economic Policy. This new methodology provides estimates of the value of both goods and services sold to customers outside Northern Ireland and is fully integrated with

NISRA's main business survey. This goes beyond what is currently available in other countries and regions of the UK.

#### *4. User Need / Code of Practice / Burden on Business*

NISRA engages widely with internal and external users as well as government economists to ensure user needs are met in line with the National Statistics Code of Practice. The statistical series produced by NISRA are also subject to independent assessment by the UK Statistics Authority. All NISRA economic outputs reviewed by the Authority received the National Statistics re-accreditation which confirms that the statistics produced are fit for purpose.

The production of economic statistics brings with it a commensurate burden on the businesses that provide the information. NISRA consults an independent Statistics Advisory Committee as it is required to do by statute, to ensure the compliance burden on businesses is commensurate with the benefits obtained.

#### **Economic Accounts Project**

NISRA undertook a feasibility project in 2013 to assess the possibility of producing a system of Economic Accounts for Northern Ireland. This was to enable NISRA to develop its measurement of the NI economy, making the best use of available data sources and taking into account the compliance costs to businesses. This includes building on the existing ONS sources and developing the key business surveys where appropriate. The NISRA commissioned feasibility study was published on the 27<sup>th</sup> March 2014 and NISRA subsequently published its [response to users' comments](#) in October 2014, with users last updated in March 2015. The project has been informed throughout by user needs including those of Departmental economists in DETI, academics such as those in the Ulster University Centre for Economic Policy and the needs expressed in the NICVA report on the "A Commentary on Economic Data in Northern Ireland" also published on the 27<sup>th</sup> March 2014.

This project has continued with the aim of developing the capacity and expertise within NISRA to produce key elements of a system of Economic Accounts for Northern Ireland. This includes boosting the NI sample element in the (ONS) UK Purchases Inquiry (to take place in 2016) to allow the production of robust NI data to provide estimates of Intermediate Consumption for NI. In addition, it is planned to boost the Living Costs and Food Survey to provide more accurate Household Expenditure data. Both these initiatives were recommended in the feasibility study.

The most recent development of the Economic Accounts project has seen the development by NISRA of experimental Supply Use Tables (SUTs) for 2012. The results of this exercise will be presented to key users on the 10<sup>th</sup> June with a publication due for release later in the summer. The next steps for the project will see SUTs developed for 2013 by March 2016 and an exercise to produce prototype Input Output Tables for Northern Ireland later in the year based on the 2012 SUTs. This will involve further engagement with Office for National Statistics (ONS) colleagues as well as those in the Scottish Executive.

### **Comparison with other UK Regions**

Northern Ireland has statutory legislation which ensures that it has control over the statistics collected and produced in the region. NISRA, acting on behalf of DFP under the Statistics of Trade and Employment (NI) Order 1988 contributes the NI element of key UK business surveys that help inform UK national and regional accounts, but also publishes survey estimates which provide more detail on local business performance (e.g. the Annual Business Inquiry, Research and Development, Community innovation Survey, the Annual Survey of Hours and Earnings). One of the important aspects of the separate NI legislation is the ability to amend sample sizes and frequency of surveys as well as the ability to introduce new surveys which will aid the measurement of the local economy. The annual Business Inquiry for Northern Ireland has had its sample size significantly increased to meet user needs for more detailed information at lower levels of geography.

Other UK regions and countries do not have separate legislative authority to collect statistical data from businesses as statistical outputs are legislated by GB statutes as implemented by the ONS. The ONS provides regional data for the GB regions (as NISRA does for Northern Ireland) for such releases as the Annual Business Survey, Research and Development, Innovation, the Labour Force Survey and the Business Register and Employment Survey etc. In addition, Wales and the English regions do not have Indexes of Services, Production and Construction, Exports and Imports data which Northern Ireland and Scotland do. Scotland produces a full system of Economic Accounts (including quarterly GDP) similar to that produced at the UK level by ONS. This is the aim of the current Economic Accounts project for NISRA which is to develop key elements of system of Economic Accounts for Northern Ireland, similar to that available for Scotland to equivalent standards.

**Conclusion**

NISRA already produce key components required to measure the performance of the NI economy in both the short-term and on an annual basis. It does so with a series of official statistics surveys produced to a high standard of quality as independently approved by the UK Statistics Authority. For example, the NICEI provides a short-term measure of output for the whole NI economy prior to the annual measures of the economy being made available (such as from NISRA's ABI and ONS's Regional Accounts). NISRA also produces a comprehensive suite of labour market statistics to equivalent quality standards to those available for other regions and countries of the UK.

The development of Supply-Use Tables for NI will provide for the first time a comprehensive assessment of the inter-relationships between the different elements of the Northern Ireland Economy to international standards to help meet user needs. Against the undoubted benefits of ever more comprehensive and detailed economic statistics there is a responsibility on NISRA to ensure the burden on business is kept to the minimum necessary.

**James Gillan (Dr.)**  
**June 2015**  
**Northern Ireland Statistics and Research Agency**

**Annex A: Summary of range of official Economic Statistics produced in Northern Ireland (Labour Market)**

Name of Statistic	Publishing Frequency	Level of Industry detail and Other breakdowns	Use this for	Notes on Use	Availability in the UK Regions
<b>Northern Ireland Census of Employment</b>	Biennial	5 Digit SIC(07) at NI level by Gender and working pattern, Broader breakdowns by Local Government District, Assembly Area and Electoral Ward.	Full count of employee jobs in all industries except agriculture. Accurate breakdown of industries and location of jobs	Results in this publication are disaggregated into the Standard Industrial Classification (SIC07) and are available according to sex, full or part-time working and industrial activity subject to confidentiality constraints.	ONS produce information for the UK regions from the Business Register and Employment Survey. However, this is a sample survey unlike the census in NI which can produce data at a much more detailed level.
<b>Northern Ireland Business Register and Employment Survey (BRES)</b>	Biennial	Headline Industry by Gender and Working Pattern, figures also provided by Local Government District.	Provides estimates for the number of employee jobs in all industries except agriculture	Approximately 8000 units sampled with estimated accuracy 2% at Local Government District. Available according to sex, full or part-time working and headline industrial activity subject to confidentiality constraints.	ONS produce information for the UK regions from the Business Register and Employment Survey
<b>Northern Ireland Quarterly Employment Survey (QES)</b>	Quarterly	2 Digit SIC(07) at NI level by Gender, Working Pattern, Public & Private sector.	Providing a short term measure of changes in NI employee jobs.	NI Employees Jobs estimates feed into the wider UK workforce Jobs figures. Sample comprised of c.5,500 businesses with an estimated accuracy of +/- 1% of total employee jobs and +/- 5% at industry sector level.	The ONS produces similar results for GB regions.
<b>Northern Ireland Labour Force Survey (LFS)</b>	Monthly, Quarterly, Annual	Economic status by age and gender	Headline estimates of Employment, Unemployment and Economic Inactivity.	The Labour Force Survey (LFS) is a quarterly household survey carried out by interviewing people about their personal circumstances and work. It provides a rich and vital source of information about the labour force using internationally agreed concepts and definitions. Headline data are seasonally adjusted accompanied with non-seasonally adjusted data.	ONS produce this for the regions of the UK. However, NI has greater access of the data than any other UK region.
<b>Claimant Count</b>	Monthly	Claimant Count data are disseminated by Age; Duration; Geography and Occupation.	The Claimant Count records the number of people claiming unemployment-related benefits.	Seasonally adjusted data is available Northern Ireland level.  There is overlap between the claimant count and LFS unemployment although the latter figures are generally higher.	Similar data is available for the UK regions.
<b>Redundancies</b>	Monthly	The Northern Ireland Redundancy data by Northern Ireland sub-region and job sector are available.	For companies that are legally required to notify DETI of impending redundancies of 20 or more employees.		Information is not available for the UK regions.
<b>Northern Ireland Annual Survey of Hours and Earnings (ASHE)</b>	Annual	Data disseminated by Age, Public and Private sector, Occupation, Industry and Geography	Provides information on hourly, weekly and annual earnings, as well as hours worked, by gender and work patterns.	NI estimates feed into the UK Annual Survey of Hours and Earnings. The sample used comprises approximately 1% of all employees in NI who were covered by PAYE schemes.	ONS produce similar information for the regions of the UK.



## Annex A: Summary of selected range of official Economic Statistics produced in Northern Ireland (Business)

Name of Statistic	Publishing Frequency	Level of Industry detail and Other breakdowns	Use this for	Notes on Use	Availability in the UK Regions
<b>Northern Ireland Annual Business Inquiry (ABI)</b>	Annual	Industry section and Manufacturing 2 Digit SIC(07) at NI level for predominantly private sector businesses.	Understanding the levels of turnover and GVA contributions to the NI economy from different sectors at a point in time.	Largest survey of NI businesses. Collects both financial and employment information from businesses and other establishments and covers about two thirds of the economy	The ONS produces results from the ABS for all GB regions.
<b>Northern Ireland Composite Economic Index (NICEI)</b>	Quarterly	NI level and sector level breakdown for Service, Production and Construction sectors.  Public and private sector breakdown available.	Provides an appropriate short term indicator for the performance of the NI economy in advance of more complete figures from other sources such as annual Regional Accounts information for NI from the Office for National Statistics (ONS).	This is an experimental release measuring total activity in the economy combining both deflated Private sector output and Public sector employee jobs on a seasonally adjusted basis. It is not possible to provide a comprehensive measure of quarterly Gross Domestic Product for NI due to the lack of suitable data sources. Comparisons with UK GDP measures are therefore approximate.	Scotland has its own quarterly GDP and Wales has a short-term index for the economy. The English regions do not have a short-term indicator.
<b>Northern Ireland Index of Services (IOS)</b>	Quarterly	The index is published on a SIC07 basis for five broad industrial groupings. All figures are seasonally adjusted. Results are published as an Index with the base year =100.	Designed to provide a general measure of changes in the output of the private sector service industries in Northern Ireland. Use this as an indicator of short-term changes in the output of the service sector	Quarterly survey of NI businesses. Collects financial information from the private sector economy	Not available at a Regional level for the UK regions. Scotland uses the Scottish sample from the UK data for their quarterly GDP.
<b>NI Index of Production (IOP)</b>	Quarterly	Overall manufacturing index published and for each of the productions sectors B, C, D, and E. Also published for manufacturing subsectors within C e.g. CA. Production index also available for the three market sectors of Consumer goods, Intermediate goods and Investment goods. Available as a time series from 2002 onwards	Show how overall production and production within sectors has changed over time and to make comparisons with published UK indices. The index provides an indicator of short-term changes in the output of the productions sector	Sample survey of over 600 businesses in the NI production sector. IOP index used as input to the developing Composite index for NI. Outside NISRA the IOP index is regularly used in Economic Commentary published by the Ulster Bank.	Not available at a Regional level for the UK regions. Scotland uses the Scottish sample from the UK data for their quarterly GDP.
<b>NI Quarterly Construction Enquiry</b>	Quarterly	Detailed construction output statistics	Show how overall construction and construction within sectors has changed over time and to make comparisons with published UK indices. The index provides an indicator of short-term changes in the output of the constructions sector	QCE index used as input to the developing Composite index for NI. Outside NISRA the QCE index is regularly used in Economic Commentary published by the Ulster Bank.	Not available at a Regional level for the UK regions. Scotland uses the Scottish sample from the UK data for their quarterly GDP.

Name of Statistic	Publishing Frequency	Level of Industry detail and Other breakdowns	Use this for	Notes on Use	Availability in the UK Regions
<b>Northern Ireland Research &amp; Development survey (R&amp;D)</b>	Annual	The survey covers the business sector, higher education and other government financed activities. Provides information on R&D expenditure, industrial sectors, employment sizebands, ownership, funding etc as confidentiality constraints permit.	Finding information on the level of Research & Development (R&D) activity in Northern Ireland.	Annual survey of NI businesses. Variations may occur in NI R&D data from year to year due to the influence of one or two large-scale projects.	ONS produce similar information for the regions of the UK.
<b>Manufacturing, Sales and Exports Survey)</b>	Annual	NI level by business size and by 2 digit SIC(07).	The Manufacturing Sales and Exports Survey (MSES) provides information on the value of sales and exports generated by businesses classified within the manufacturing industry in Northern Ireland.	Both current and constant prices are presented. Constant prices allow figures to be presented so that the effects of inflation are removed and changes can be reported in real terms (by using a deflator).	Scotland has similar information but Wales and the English regions do not.
<b>Exporting NI Services Study (ENISS)</b>	Annual	Tradable services by NI businesses with 10+ employees within Construction, Manufacturing and 'High Export Potential' sic groupings	Estimates the value to the Northern Ireland economy of exporting services. The study is based on information collected via the International Trade in Services Survey which collects information on overseas transactions of consultants and companies offering business services. Supplemented by the ABI and the MSES	Various initiatives are in place to monitor sectors, through surveys such as the NI Annual Business Inquiry and the Manufacturing Sales and Export Survey. If evidence of substantial trade activity is found in other sectors, the ITIS sample will be boosted further.	Scotland has similar information but Wales and the English regions do not.
<b>UK Innovation Survey: Northern Ireland Results</b>	Biennial	NI level by business size and by 2 digit SIC2007	Provides a wide range of information related to innovation activity among enterprises, and includes information on the extent of innovation activity, the impact of innovation on businesses and the barriers to innovation.	NI estimates feed into the UK Innovation Survey, which in turn forms part of the wider European Community Innovation Survey.	ONS produce similar information for the regions of the UK.
<b>Inter-Departmental Business Register (IDBR)</b>	Admin. Data Source - Annual Publication Monthly extracts available for ad-hoc analysis	Number of business published at NI level by 4 digit SIC2007, and at District Council level by Broad Industrial Group (17 Groups). Number of businesses by turnover sizeband, employment sizeband (micro, small, medium and large businesses), public/private sector, legal status and country of ownership. Births, deaths and survival of businesses.	Information on the number and characteristics of businesses in Northern Ireland; Information on foreign-owned (non-UK) businesses in Northern Ireland.	This source provides information on the number of businesses with a given characteristic. For estimates of the number of employees in a particular industry or geographical area the Census of Employment or BRES should be used. For estimates of the turnover for a particular industry or geographical area the ABI should be used.	ONS produce information from the IDBR for the GB regions.

## Annex A: Summary of range of official Economic Statistics produced in Northern Ireland (Tourism)

Name of Statistic	Publishing Frequency	Level of Industry detail and Other breakdowns	Use this for	Notes on Use	Availability in the UK Regions
<b>Overnight Trips/Nights and Expenditure in Northern Ireland</b>	Quarterly, Annual	Overnight trips in Northern Ireland by Reason for Visit and Country of Residence  Annual Data by Local Government District	This bulletin provides an overall assessment on the number of overnight trips to NI, the associated number of nights and expenditure.	The statistics are derived from a number of sources, not all of which are the direct responsibility of NISRA. For example, some GB and overseas visitors to NI leave through RoI airports and ports, and NISRA receives information on such visitors from CSO/Faillte Ireland.	Some tourism data is available for the UK regions.
<b>Northern Ireland Occupancy - Hotels, Guesthouses, B&amp;B; Guest Accommodation</b>	Monthly, Quarterly, Annual	Northern Ireland, price bands, size bands  Data by Local Government District also published	To gain an understanding on how the serviced accommodation in Northern Ireland is performing. Can give an early indication on the performance of tourism	The Hotel occupancy is gathered from a census of main commercial accommodation. Although this gives indication of the performance of tourism, it should be noted other accommodation is available (e.g. hostels/campsites/friends&family etc)	Some tourism data is available for the UK regions.
<b>Northern Ireland self-catering survey</b>	Annual	Northern Ireland, price bands, size bands, geographical breakdown  Data by Local Government District also published	Provides estimates on the performance of the self-catering industry in Northern Ireland	The self-catering survey is carried out to all self-catering establishments in Northern Ireland.	Some tourism data is available for the UK regions.
<b>Northern Ireland Visitor Attraction Survey</b>	Annual	Northern Ireland  Data by Local Government District also published	This report provides an overview on the number of visits to various attractions across the whole of Northern Ireland	The list of visitor attractions in Northern Ireland is gathered from the 'discover Northern Ireland' website and Local Councils.	Some tourism data is available for the UK regions.







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