THE VOICE OF BUSINESS
NORTHERN IRELAND

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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 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

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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.

<u>Priority Two - Infrastructure/connectivity – essential to create a world class infrastructure that enhances our competitiveness</u>

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 it's 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 intensions 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 financially 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

ANNEX

Table 1 Most influential factors when choosing to invest (Ipsos MORI telephone interview, August 2010, of FTSE 350 companies and their foreign equivalents)

Factor	Mean score (1-10, with 10 being very influential)
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

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

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

Our Global Future: the business vision for a reformed EU (November 2013):
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

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