



Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

**Inquiry into Economic Growth and Job
Creation in a Reduced Tax Environment:
Grow NI**

28 April 2015

NORTHERN IRELAND ASSEMBLY

Committee for Enterprise, Trade and Investment

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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	Grow NI

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.

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.

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.

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.

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.

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.

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."

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.

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.

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.

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. 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.

Carl and I will be glad to answer any questions that you may have about those suggestions and anything else on the issue.

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?

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.

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.

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?

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.

The Chairperson (Mr McGlone): All right. That is grand. Thanks, Eamonn.

Mr Flanagan: I have no questions at the moment, Patsy.

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?

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.

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.

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.

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.

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.

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.

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.

Mr Dunne: OK, gentlemen. Thanks very much.

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.

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?

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 though 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.

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?

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.

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?

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.

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?

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.

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.

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.

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.

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?

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.

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.

Mr Donaghy: Certainly, in the years that I have been there — I would be interested in discussing that with you.

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.

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 —

The Chairperson (Mr McGlone): I think that we will leave that till later.

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.

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.

Mr Ó Muilleoir: To come back on some of that, with your permission, a Chathaoirligh, when you talk about £23 billion, are you including the £1 billion-plus for British defence? Yes or no?

Mr Donaghy: I do not have the figures in front of me.

Mr Ó Muilleoir: It is over £1 billion.

Mr Donaghy: OK, it is a contribution.

Mr Ó Muilleoir: Of the £23 billion, I think that approximately £1.2 billion goes on defence.

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.

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.

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".

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.

The Chairperson (Mr McGlone): I think that all parties in the room have subscribed to that. A Mháirtín, an raibh tú —

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.

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 —

Mr Flanagan: What has that got to do with anything?

Mr Ó Muilleoir: That has nothing to do with anything.

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?

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.

Mr Ó Muilleoir: Yes, but they kept the income tax and the National Insurance.

Mr Whyte: No, I am talking about corporation tax. I am not talking about income tax or National Insurance.

Mr Ó Muilleoir: We all accept that corporation tax will increase, but we are trying to get right —

Mr Whyte: No, sorry, the tax take from corporation tax.

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.

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.

The Chairperson (Mr McGlone): OK; thanks very much.

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.

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?

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 —

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?

Mr Donaghy: I have been working on it for 17 years. I am not going to get into the political comments.

The Chairperson (Mr McGlone): As you get closer to an election you are going to hear those claims.

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.

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.

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.

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.

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.

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.

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.

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?

Mr Donaghy: That is a really good question.

Mr Flanagan: I take it that that is a no then.

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.

Mr Flanagan: It has never come up? No?

Mr Donaghy: No.

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 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.

The Chairperson (Mr McGlone): I hope that we arrive at that point of prosperity.

Mr McKinney: We have to make a start. We have to recognise — [*Inaudible.*]

Mr Dunne: Thank you for your positive contribution to the debate and our inquiry and your support of the devolution of corporation tax.

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.

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.

Mr Dunne: Hear, hear.

The Chairperson (Mr McGlone): I could not disagree. Thank you.