



Northern Ireland  
Assembly

Committee for Enterprise, Trade and  
Investment

# OFFICIAL REPORT (Hansard)

Inquiry into Economic Growth and Job  
Creation in a Reduced Tax Environment:  
Confederation of British Industry

12 May 2015

# NORTHERN IRELAND ASSEMBLY

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

Mr Patsy McGlone (Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Mr Paul Frew  
Mr Paul Givan  
Mr William Humphrey  
Mr Danny Kinahan  
Mr Fearghal McKinney

**Witnesses:**

Mr David Fry	Confederation of British Industry
Mr David Gavaghan	Confederation of British Industry
Mr Nigel Smyth	Confederation of British Industry

**The Chairperson (Mr McGlone):** Before us today we have Mr Nigel Smyth, the director of CBI; Mr David Gavaghan, vice-chair; and Mr David Fry, senior policy adviser. It is good to see you all. Thanks very much for coming along to give evidence to the Committee inquiry. It is great to have you here. You know the format: we will have opening statements then a question-and-answer session with members. Are you leading, Nigel?

**Mr Nigel Smyth (Confederation of British Industry):** I will speak for maybe five minutes just to give an overview. Chair and Committee members, we are delighted to be here today. CBI is the UK's leading business organisation, speaking for around 190,000 businesses that together employ about one third of the private-sector workforce. As we said in our submission to the inquiry, we see this as an extremely important piece of work. The business community sees it as vital that the Executive urgently develop a strategy to maximise the impact of lowering corporation tax levels in order to stimulate investment and maximise the levels of job creation and the broader impact on the community. So, we believe that the recommendations from the Committee will be particularly important. However, as we and others who have appeared before the Committee in recent weeks said, there is strong evidence to suggest that, while lowering the corporation tax rate would be vital to encouraging investment, it is also recognised that other key factors, notably skills, infrastructure provision and innovation planning must also be addressed as part of an integrated package to inform the Northern Ireland economy. We see the reduction in corporation tax as a transformative tool.

In our submission, we therefore sought to prioritise the key actions that are required in the near and medium term to further enhance our competitiveness and attractiveness as a region to do business and to invest in. We split those into strategic and policy challenges. First, with the strategic

challenges, setting a date and rate and developing an effective marketing strategy will give Invest Northern Ireland the time and opportunity to market the rate internally and externally, as well as show to the UK Government that the Executive are serious about delivering sustainable public finances. An effective marketing campaign targeting potential investors is essential. Secondly, strong, united political leadership is crucial to show that Northern Ireland is politically stable and, importantly, an economically ambitious place in which to do business. That should include a clear and unambiguous focus on delivering a truly shared future and creating an environment that will attract and retain the talent necessary to inform the Northern Ireland economy. Thirdly, the silo mentality in government needs to end. The now agreed reform of Departments must enable a more strategic, joined-up government if we are to get the policy landscape properly aligned to meet the needs of indigenous and local investors and ensure that we have an integrated economic strategy that embraces all Departments. Finally, we need to raise the ambitions and aspirations of our society to ensure that we deliver the 35,000 to 40,000 additional jobs over the next 20 years. The need for an internal communications strategy in Northern Ireland is critical. This is about opportunities, and we need to make sure that our young people and local people benefit from those.

We have set out two main priorities for the key policy challenges: education and skills; and infrastructure. On education, the broad priority must be to better align education and training with the needs of the economy. In our written submission, we set out a series of key recommendations around the importance of improved careers advice and guidance, including greater involvement of business. This is all about inspiring our young people and making our young people make better, more informed choices. Secondly, we want to ensure that we prioritise investment in further and higher education. Our higher education sector, in particular, needs sustainable and competitive funding levels. Thirdly, the STEM subjects are an important part of the curriculum, and the STEM strategy must be ambitious. Fourthly, it is about improving the employability of our young people, including getting the basics right in English and maths, having a statutory requirement for work experience and ensuring that the curriculum inspectorate focuses on the attitudes and behaviours that are sought by employers. Finally, we want to build better and deeper business and education links.

The second key priority is around investment in infrastructure, which, we believe, must be an ongoing top priority for the Executive. The next investment strategy should prioritise a series of projects that business sees as critical to improving connectivity in the region. That is very much around the strategic road network, including the York Street interchange, the A6, the A5 and, importantly, on the energy side, the second North/South interconnector. Clearly linked to that is the need to improve delivery. That is about better procurement and delivery reform. An implementation plan was presented to the Executive subgroup on infrastructure last summer by the Finance Minister and a working group. It is now critical that all parties in the Executive buy into those principles and that we deliver the outcomes as soon as possible. Finally, we want to see the Northern Ireland investment fund deliver on its potential and make its first investments by the summer of 2016.

There are clearly many other policy issues that impact on the broader business environment that will impact on business investment. I will touch on four of those. We need to ensure that the planning system is providing certainty and that planning decisions are taken in a speedy manner. We need to ensure that we have an employment law framework, which supports a flexible labour market and encourages companies, large and small, to employ more people. We believe that continued UK membership of a reformed European Union is in the best interests of our long-term future and maximising global investment in Northern Ireland. Finally, strategic and fundamental public-sector reform is required over the coming years to improve outcomes at a lower cost and to deliver sustainable finances.

Chairman, at that point, I will conclude the opening statement. We very much look forward to responding to your questions.

**The Chairperson (Mr McGlone):** Thanks very much. I am particularly interested in the question of infrastructure. Could you maybe expand a wee bit on your implementation plan? According to what the Committee has heard so far, the infrastructure issue, particularly for economic development at subregional level, is a major theme. It is not about just roads and water but broadens way beyond that into electricity, gas, and basic communications such as broadband and mobile telecoms. Could you give us a flavour of your implementation plan and its key issues? Has the Executive subgroup been in communication with you about its roll-out or how it sees that happening?

**Mr Smyth:** You are quite right about the infrastructure priorities. We focused on transport and the strategic road network. Energy, regarding the North/South interconnector, is critical, as are telecoms. We are fairly well-placed in telecoms with broadband and mobile. Even in recent months, we have

been doing our own piece of work around that. I was in the western half of the country twice in the last week. I was a bit surprised at the concerns about the lack of high-speed broadband. There is no doubt that the priority is to continue to stay ahead of the curve on this issue, ensuring that we are making the right investment. For some companies, that is almost taken for granted. It is a limited cost compared with the broader infrastructure.

In terms of priorities, getting our telecoms right and that connectivity is vital. We have about 70 not-spots in mobile coverage. Some people are very large users of mobiles and others less so. Some have given up on using mobiles because of dropped calls. We are in correspondence with the Department and Ofcom, and we have an upcoming meeting with Vodafone to get a better understanding of the problems. According to the evidence that we have had in recent months, some of those problems are getting worse. There appears to be more congestion as well as gaps in the network. There is a national network to try to encourage all operators to work together to address those not-spots. So, on the priorities, telecom connectivity is vital.

On the infrastructure, it is about that strategic road network, and we are all aware of the gaps in that. It is about connectivity within Northern Ireland and with the Republic of Ireland. It is about connectivity to our ports and airports. It is not about just trade; it is about access to work. People will typically travel for 30 to 40 minutes, so having a very good transport network will enable more people to get to where the jobs will be. With foreign direct investment, a lot of global investors and business services will cluster their activities around cities. That is the nature of the game, so that is going to be Belfast, Derry and possibly Newry. We need to make sure that as many people as possible have access to that network.

I will ask David to comment on the delivery side. We produced a major infrastructure report at the back end of 2013. A key element in that was that we believed that the system was not delivering. There was a lack of visibility, and we had procurement problems, challenges and judicial reviews (JRs). There were issues around skills and capabilities. Early last year, the Finance Minister, under the procurement board, set up a subgroup, which eventually reported this time last year. It came to fairly similar conclusions to those of our report. There have been some changes. One recommendation was for greater centralisation, and, since then, we have seen health estates come within the Central Procurement Directorate (CPD). There is still significant frustration at the lack of visibility. Some capital is going into buying buildings back. Part of the evidence from our members is that, because we still have so many problems on the procurement side and projects are not ready, the easiest thing to do is to buy buildings back. That is not delivering jobs, a better economy or more competitive infrastructure. Clearly, we are going to see an Infrastructure Department, which will come into play next year. That is a welcome move to create more of that centralisation. So, we have seen some progress but clearly not as much as we would like.

We had a meeting about infrastructure with about 20 companies last night. There is clearly significant frustration out there at that lack of delivery and the barriers that go up. It is just not easy. There is a view that we are just not ambitious enough in what we need to do. It needs to be much more outcome-focused rather than process-focused.

**The Chairperson (Mr McGlone):** What you said resonates with me. Wearing another hat, I am also the chair of the all-party group on construction. The issues that you mentioned are the very ones that I and others on that group are picking up regularly. For example, capital schemes are not moving as efficiently as they should, and we do not know why. There is no apparent reason why those schemes should not be getting off the ground. Of course, there are other factors such as JRs and procurement issues.

If we are going to deal with our infrastructural problems and issues, a key part of the development of the economy is obviously the support of the construction sector. We can talk until we are blue in the face, but it is a very substantial part of our local economy and it is the bedrock upon which the infrastructure will be developed, which is the key element to joining up all the pieces.

You said that you had a meeting last night. What is the analysis of the position that we are in at the moment? Are we starting to see more strategic and efficient development and more responsive delivery of capital projects that will tie in with the infrastructural requirements that are so needed if we are to launch the North as a viable place for additional investment post a decision on the rate and date for corporation tax?

**Mr David Fry (Confederation of British Industry):** We did not hear from any of our construction members yesterday — you will be quite familiar with many of them, Chairperson — that any of the

changes that have been made so far have given them any greater confidence. There is clearly a process that is being engaged with on the transfer of health estates to CPD and the implementation plan that we talked about that was presented by the subgroup on infrastructure last summer. I know that, very recently, CPD published guidance on updating the pipeline and having senior responsible officers in each Department — the permanent secretaries, I think — to update that. In terms of giving that greater confidence that the industry has always looked for, what is being seen at this stage is not enough.

One of the comments that was made — again, you will be familiar with it — was that the capex spend is around £1.2 billion but the industry sees around £450 million a year because the rest of it goes into other things. Do not get me wrong; I am not saying that IT is not important, but the construction sector sees maybe just under half of that each year on the ground. That drive towards greater centralisation of procurement and delivery, matching what is done in other jurisdictions, is important. A lot of the construction industry would say that it partakes in business in Britain or the Republic, and it seems to make sense and deliver projects on the ground in a timely manner. It strikes us as something that should be deliverable here. Perhaps, in the context of departmental reform, that is —

**The Chairperson (Mr McGlone):** Particularly given that this is a relatively small place.

**Mr Fry:** Yes.

**Mr Smyth:** There were some positives. There is a lot of frustration out there. There is a lack of confidence in the system, despite even in recent weeks the introduction of new guidelines on visibility regarding projects. Very few people around the table believed that this is going to be populated. At the same time, there were some positive comments, particularly around Transport NI, which is bringing forward a number of projects despite not having the budget for them. That has been one of the problems in the past: we have sat there and focused on a project and something has happened to it — perhaps an environmental challenge has come up — and we have not been prepared or been in the position to spend money somewhere else relatively easily.

A couple of our members commented that Transport NI is bringing forward a number of shovel-ready schemes. In our report, we argued that all the key Departments should have a number of schemes lined up because you never know what is around the corner that could undermine one of those potential schemes. There has been some progress but there is still a significant way to go.

**Mr Dunne:** Thanks very much, gentlemen, for coming in this morning. We are very supportive of what you said, and we share your enthusiasm. I reassure you that we are enthusiastic about what we do here, and we want to see progress being made and driven forward, especially in the economy. There is talk about the need for skills and the development of skills. Do you see potential here for the need for new skills being developed?

Secondly, you mentioned STEM subjects. We feel that there is a major gap with those, and we certainly share your thinking on that. We still have issues in relation to schools engaging with employers, business and industry. How do you think that could be improved? We do appreciate the work that is going on with colleges, which are willing to listen to new businesses that come in and design courses and schemes for them. Obviously, there are the links with universities, which are important and, in many ways, are challenged in relation to funding. Can we have some feedback on those issues? It is important that we do more to encourage young people into business and make young people more and more aware of the professional jobs that are in business, not just that there are blue-collar jobs, which has been the perception over generations. There are real jobs in there that offer career opportunities, and they are there to be explored and developed.

**Mr Smyth:** I will kick off. Skills are absolutely critical. It stands out. We have done a lot of work around the education and skills piece. We had two major reports last year on that. One looked particularly at the whole business education piece, and the other looked at the education piece. You mentioned new skills. A lot of the investment that we are getting is in business services, IT, financial technology — fintech — sectors and creative industries. I think that the view will be that, yes, new skills are emerging from that and that there are new jobs, particularly around the Internet etc. The answer to that is very much around good engagement between employers and the FE and HE sector.

In the school system, we are arguing for robust, rounded and grounded young people who have the basics right in maths, English and, increasingly, computer science. We believe that computer programming should be compulsory from primary level all the way up. We are in the digital age, and

every job and every company has to put more resources into that. With young people, it is all about attitudes and behaviours. We are quite clear that labour market forecasting is difficult. We need to do more of it, and, indeed, there is an initiative under way regarding the skills barometer between the Department for Employment and Learning and the University of Ulster. We need to be aware that skills forecasting is a difficult area, so we need a lot of our young people to get the basics right and have the right attitudes and behaviours. In all of this, there will be volatility and flexibility, and people will have to reskill, re-engineer and redesign. They will have a number of jobs as we go forward.

The answer to this is very much around that focus on careers; it is about being much better at careers education and guidance. Part of that is about motivating our young people and highlighting opportunities. There is some very good work out there on where the opportunities are and how those might change. We have to do better work on getting a better understanding, as we highlighted in the paper. Getting a lower corporation tax rate will be a step change for the types of investment and the quality of investment that we get into here. Some of that will require young people and young graduates. A more difficult challenge is getting some of those more experienced people and bringing them back into Northern Ireland, and it will take some time before we deliver on the back of that.

On the second area that you mentioned, we do have a STEM strategy. We are probably ahead of parts of GB on that. Our argument in the paper is that we need a much more ambitious implementation of that. There are issues about studying single science subjects in schools and other things that we mention in our education report. We certainly see a lot of opportunities in that sector, even with maths. In France and Germany, 65% to 70% of young people do maths post GCSE; in this country, I think, it is less than 20%. They do not need to do an A level, but, before they leave school, we need to make sure that they have basic competence in the likes of maths. We need more maths as well as some of the science subjects and the likes of computer programming. I think that six schools are teaching computer programming at A level, which is probably fewer than were doing so 10 years ago. There are as many jobs as we like in that if we can convince more people to study in those subjects. Looking at engineering skills across the UK more widely, there is a dearth of engineers and a major concern in industry about some of those skills. We pick up a lot of concerns about the lack of electrical engineers in our universities. Again, we educate fewer in our universities now than we did 10 years ago. These are very important people to high-value-added manufacturing, which certainly has a future. David, do you have any further comments?

**Mr David Gavaghan (Confederation of British Industry):** Nigel used the words "even maths"; I would say, "particularly maths". I am thinking about computer literacy. The Chairman has already mentioned that this is a small place, and it does not need very much to get a real focus on these issues.

The final point I would like to make is this: we probably do not do well enough on languages. Our inclination is to rely on the fact that, increasingly, English is the global language. I have often thought that a particular focus on China and learning Mandarin would be a really interesting area to develop and would give us an extra selling point. For quite a number of children, our education system is good, but, with a little more focus and effort we could really create capability and stand-out.

**Mr Dunne:** There has been considerable work done by the universities in relation to China. You are probably aware of that. We are obviously pushing to develop links with China, especially in the agrifood sector. There is a huge initiative — I think it is under way this week — but there is still a tendency in Northern Ireland to push young people towards professions such as the law, teaching and health, rather than into engineering and manufacturing. You are right: electrical engineering and maths are linked. To have a good understanding of engineering, you need to have a good understanding of maths. There is still a shyness, even at school level, about maths, and I suppose we need to put more emphasis on it.

**Mr Gavaghan:** I agree completely. If there is the political will to implement the proposal in the paper to make maths and English compulsory until 18 for all those at school, that would be fantastic.

**Mr Dunne:** Is there a possibility that the IT world has put willingness to develop maths and engineering skills at risk?

**Mr Smyth:** I do not think so. We argue that we need more IT programming; but you need good analytical and maths skills. It is all part of that. The biggest opportunity is probably in the IT sector, but there are other, broader sectors, such as advanced manufacturing, energy and business services,

which we talked about. A lot of those still need to have the basics right. I do not think that an overdue focus on IT will take away from that broader need and the opportunities that exist outside.

**Mr Gavaghan:** May I make a separate point related to the previous discussion? As regards an awful lot of the discussions that we have about initiatives, we need to have dates. In the same way that we talk about a date and rate for corporation tax, we need to set timelines for the implementation of all the other things and have benchmarks. One project I was integrally involved in, and that had the great benefit of history behind it, was the Titanic centenary. We delivered that building, which has had a seismic impact on tourism and positioned the story of Belfast and the Titanic globally.

If we cannot make the study of maths compulsory, we should set a date, whether it is 2017 or 2018, and the percentage of students who should do it. We could do that for all these projects with the benefit of collaboration. It would be amazing to see how much we could achieve. What we tend to do — and we in the business community are as guilty as anyone — is talk about an idea, without setting a date and a level of attainment. If we just did that, it would be amazing what we could all do, because we would feel embarrassed if we had not got there.

The other thing we should do is benchmark everything against other regions in the UK, the Republic of Ireland and Europe, so that we could see how we did relative to them. Again, that would create an embarrassment factor or, the opposite, a great sense of achievement. Sometimes, the architecture of how we look at issues is not done in the way that would help us to achieve it best. I know that there is a lot of anxiety about doing that, but, actually, that is the stuff of life.

**Mr Dunne:** We need to set SMART targets.

**Mr Gavaghan:** That is precisely right.

**The Chairperson (Mr McGlone):** For the likes of me, who does not know that much about it, could you expand a wee bit on the skills barometer and how it is anticipated that it will work?

**Mr Fry:** The Ulster University's Economic Policy Centre is still developing that work. I am not aware of any set timeline and it will not be published as such. There are various stages to it, and it is a work in progress.

As Nigel alluded to earlier, it is difficult to say that, in 2025, you will need 5,000 of this or 10,000 of that, so they would be reluctant to do that. What they can do is to look more at the trends going forward, what we need to be thinking about and, importantly, the time lags between the secondary and tertiary education systems and how that feeds into the needs of the workforce. That is the piece of work they are working on. However, I do not think that the intention is for the centre to produce a piece of work that will be set in stone.

**Mr Smyth:** It will be an iterative process. I think they intend to come out with the first iteration in the summer, but it will be a continuous process. Labour market forecasting is difficult, but, at the moment, we have very little out there. Something will be better than that, and it will hint at the broad sectors, the development needed and general trends on which we should be focusing our activities.

**Mr McKinney:** Thank you all for the presentation. You talked about the silo mentality in government and how getting rid of that is a way forward. Can you point to initial misses or *[Inaudible.]* in the existing silo mentality as you see it?

**Mr Smyth:** The classic one was the draft Budget in December, in which there were quite significant cuts, particularly in employment and learning. That is fundamental and is our key priority as we go forward, and, if anything, we will need more investment in that area. There is also the issue of alignment and whether we have the right courses. A lot of it is about choice, but I think that that was a classic case. At a time when we needed to protect the level of spending in the area, the draft Budget proposed quite significant cuts. Even in the final Budget, in which DEL received some additional moneys, the universities, which are probably our biggest concern, received cuts and are now funded well below the UK level. The worry and concern as we go forward over the next four to five years is the sustainability of that.

**Mr McKinney:** I am sorry to interrupt, but would getting rid of the silo mentality have made a difference? After all, it was a budgetary consideration thereafter.

**Mr Fry:** To our eyes, and to those of other organisations, when the draft Budget was published it just looked like it was a case of top-slicing. An amount of money was taken from DEL. That did not seem to have any due consideration of what DEL offers and the outcomes it produces, and I am not sure that this is the best way to formulate policy. There are better and more strategic approaches to doing that. If this is about producing highly skilled graduates and the number required, then it is difficult to say to DEL that it has to take that amount of money out and then go and sort out how it will proceed.

**Mr McKinney:** In your presentation, you pointed to the fact that we will change the types of Departments we have and reduce their number. Outside that, or consistent with that, what recommendations would you make to the Executive on integrating policies and strategies?

**Mr Smyth:** We have an economic subcommittee, but it is not clear to us that it is having an impact on Departments. If it were, we would probably not have seen that decision on budgets, and there would have been agreement within the Executive and an understanding of the importance of where we need to invest and what we need to do. It is about that economic piece and having an effective and integrated strategy. There is an economic strategy, but is there sufficient buy-in from all the Departments? Are we doing all the right things? Do we have the level of ambition all the way through to make things happen?

Going back to infrastructure, there is a view that there is just not that drive or ambition, whether among civil servants or elsewhere. It is all too easy. Lots of barriers are thrown up, and we have a risk-averse culture. We need to grasp this issue and say, "This is all about outcomes".

**Mr McKinney:** That is diagnosing it.

**Mr Gavaghan:** There is a cross-cutting theme. Frances Ruane from the Economic and Social Research Institute (ESRI) is one of the members of the Economic Advisory Group — I think that she is about to retire — and one of her recommendations is that, in everything we do across government, we should look at the competitive position of Northern Ireland. Our ability to see our competitive positioning is a fundamental plank of what we should do across everything in government and the private sector. That is a critical area that, at the moment, we are not addressing.

**Mr McKinney:** Yes, you could put that on the top of the sheet as the ambition piece or the direction piece, but how do you then —

**Mr Gavaghan:** I am sorry for interrupting. I have not looked at this for a while, but Frances would argue that in the Republic it is not only the top piece but permeates through every aspect of the endeavour of what the Government are trying to do. If you listen to some of what the Government are trying to do, you will see that they are positioning the Republic of Ireland. In fact, Northern Ireland is doing extremely well in certain areas, but it is about doing it on a joined-up basis.

**Mr McKinney:** So, we are simply not doing it.

**Mr Gavaghan:** That is her view. Her view is that it is not a systematic approach.

**Mr McKinney:** How can that be solved? I know what you are saying about what it would look like at the end or what the results would be, but how do we get from now, when it is not happening, to practically driving that ambition through every Department and organisation?

**Mr Gavaghan:** I do not have the expertise to give you a proper response on that, but, if it is an area that resonates with you, we should sit down and talk about it again. Frances is particularly erudite on the subject.

**Mr Smyth:** The way to achieve it is to have a Programme for Government with a smaller number of key ambitious outcomes. In that way, you would be focusing attention on outcomes. We have a very process-orientated system. Yes, the second Programme for Government had 80-odd priorities or outputs rather than the initial 300; so we are moving in the right direction. Hopefully, the one in May next year will be much smaller. It is really important to get Executive buy-in. We need buy-in from everybody, and that needs to be ambitious and impactful to develop the economy, address social inclusion, etc. It should have a smaller number and be very much outcome-focused. Everybody should weigh in behind it and align it so that those outcomes will automatically fit in. It was always

going to be Departments, but if we all work together with the same goal and drive to achieve that, that is probably one of the key ways of delivering that.

**Mr McKinney:** I will give you an example. As you know, Chair, I also sit on the Health Committee, and one of the things that frustrate me enormously is that the Health Department is refusing to extend purchase, or consideration, to innovative new drugs. As you know, the global piece is around innovative medicines, and the Department's refusal to buy-in to innovative drugs is, I think, causing untold damage because the big pharmaceutical companies will not look to Northern Ireland. Yet, that could be one area in which we could make enormous strides in creating new jobs. For me, this is a perfect example. I am interested to know how you can get that. The Health Department is not seen as being a job creator or as having anything to do with jobs, yet, if it purchased innovative drugs and bought into that, meaningfully, it would have an enormous impact on the DETI piece.

**Mr Smyth:** To be fair, Health has a good joined-up initiative with DETI on some of the technology. It is fairly early days, but I am hearing encouraging noises about that in terms of the recognition that Health is a major economic driver in that.

**Mr Gavaghan:** Urbanisation is another cross-cutting theme that, again, is a global phenomenon. There is probably not enough policy as regards looking at the concentration of the population of Northern Ireland around the principal cities and, in particular, Belfast.

If we are competing in a global marketplace, which we are, and are increasingly turning our minds towards a competitive tax rate, then we need to ensure that Belfast can compete as effectively and as strongly as it can. I know that this may be difficult in terms of some of the politics but the fact is that it is where wealth creation in this jurisdiction will arise. If you look at Government policies in the rest of the UK and the Republic of Ireland, let alone anywhere else in Europe, the need to focus on Belfast as the key generator of wealth is fundamental. I do not see that as being a complete focus of activity in either the private sector or the public sector. I welcome the focus from 26 councils to 11, but Belfast City Council and Belfast as a driving force for wealth creation, is fundamental to the future of Northern Ireland. That would be another cross-government policy that I would implement.

**Mr McKinney:** Thank you very much. There are, obviously, further questions to be asked.

**The Chairperson (Mr McGlone):** Absolutely. There is one point I want to raise. I know that it ties in with the politics of the mandate but given the strategic aspect of what development should be, is a five-year Programme for Government long enough? It depends on all sorts of political factors and I am wearing a different type of political hat here and I am being a bit of a devil's advocate. Should the Programme for Government be a 10-year one or a 15-year one in respect of certain objectives with the time frames that you are talking about? Some of them will be realisable within a couple of years but some of them may take five, six, seven, eight or 10 years to realise, depending on the objective.

Is there any sort of further thinking that should be done around that, subject to the qualms of what might be happening politically? Take Nigel's five key areas, for example; some of those may be realisable within a couple of years and some of them may not. Therefore, if an Executive adopt, say, five key thematic areas, not all of them will be realisable within a five-year mandate. Some of them will be a work in progress, some of them may be at a more advanced stage than others and some may not even have started. Is there any thinking that should be going on around that?

**Mr Smyth:** Absolutely. We see that being set out in a long-term vision in an economic strategy that may be a front piece of a Programme for Government. The Programme for Government has to focus on those five years but it is critical that we know where we are going beyond that. Whether it is in education or infrastructure, these things take a long time, so you need to have that vision. We need to paint that vision and get buy-in and that has to be an ambitious vision. The Programme for Government, which is a five-year programme, needs to fit in. That is the journey and direction in which we want to go on the back of that and the two can go together. In terms of accountability, you need to say what it is that you are going to achieve over the five years but that is only part of the journey to where we are going. That bigger vision is critical in raising people's ambitions and aspirations.

**Mr Gavaghan:** One important aspect of your question is the population. In too many fora, you hear that the population of Northern Ireland is 1.5 million but the population today is 1.8 million and in the next 10 years it is likely to grow to somewhere around two million. The challenge for us on the island of Ireland is that the population count is around 6.4 million. I am doing a lot of work at the moment

with Engineers Ireland on an updated report that looks at the population growing to eight million and possibly 10 million by 2050. Those are seismic shifts in population growth; Britain is also seeing enormous growth in population.

These are fundamental aspects to planning. For me, that is one of the central issues. Where will the population be? What will it look like? What is the growth and the nature of the employment that will take place to create that wealth around that population? If you take other global movements, we will see significant additional population increases from immigration. Obviously, there will be a government review of that, subject to the European decision. These are fundamental aspects. My view about the population of Northern Ireland is that it is likely to grow significantly above two million in the next 15 years, but that is a personal view and is not necessarily borne out by the statistical research. These are fundamental issues in planning, and they will have an enormous impact on the allocation of resources.

**Mr Humphrey:** Good morning, gentlemen, and thank you very much for the presentation. Given Northern Ireland's reliance on the public purse, despite attempts to rebalance the economy, what is the CBI's view of the election of a majority Conservative Government in the United Kingdom and the effect that that might have here?

**Mr Smyth:** We are absolutely clear that we are a non-political organisation; it is up to the voters.

**Mr Humphrey:** I assume that you have a view.

**Mr Smyth:** I can send you the press release that I sent out on Friday. We want the Government — it happens to be a Conservative Government — to focus on pro-growth, pro-enterprise policies. The concern will be around the Conservative Party and the future of Europe. That is one of the points that we highlighted in our report. The Conservatives tend to be focused on a fairly pro-business agenda, and we want to see more of that, but there is significant work to do on education, skills and infrastructure. Those are issues nationally as much as here. The European question gives us concerns. We did a major piece of work on that in 2013. Over 70% of businesses benefit from the European market, while 80% of our members want to stay in a reformed Europe. That will be the key issue over the next number of years. A number of the reforms would be supported by other business organisations across Europe and, indeed, by some Governments. The question is this: how far can we go on the back of that? That has a big impact on the corporation tax debate, because companies investing here are not looking at Northern Ireland as a marketplace; it is a marketplace into the UK or, in most cases, into the broader Europe.

From a Northern Ireland perspective, there will be concern about benefits. We do not know where that will go, but we have a disproportionate number of people in the benefits system, so we are more exposed. That re-emphasises the need to create more jobs in Northern Ireland and to get people off benefits. This is all about opportunities. You need to create opportunities in the first place. You then need to make sure that our young people and those on benefits are incentivised to get into work. Vitally, that comes back to education and training and making sure that those people have got the qualifications and skills required to have a career and to progress in life. From the point of view of government overall, it provides a certain stability, and businesses look for stability. That is important for any investor, whether indigenous or a foreign global investor coming into the country.

**Mr Agnew:** You said that 80% of your members wanted to stay in Europe: is that in Northern Ireland or UK-wide?

**Mr Smyth:** Based on workshops or groupings that we had, the percentage is UK-wide. It might even have been marginally higher than that in Northern Ireland back in 2013, but the figure is UK-wide. It was a substantive piece of work that was done. We looked at the alternatives. Europe is not perfect. We want to see reforms, but you have to look at the alternatives. We do not believe that any of the alternatives, whether being totally separate or following a Norwegian, Swiss or Turkish model, will work for UK business in the current European Union. However, we would like to see some reforms and have set out our agenda for what those reforms should be.

**Mr Humphrey:** You said that the confederation is keen that we have a date and a rate set for corporation tax as quickly as possible. I and my party share that view. Other parties can speak for themselves when it comes to the rate and the date. I asked this question of the Northern Ireland Chamber of Commerce in Committee a few weeks ago: what are the opportunity costs to Northern Ireland plc of not having corporation tax devolved and at the rate that we want it set?

**Mr Smyth:** If I am right, it is the opposite. The benefits are transformation, opportunities and much higher value-added and productive sectors. We are seen as a relatively low-wage economy, and we can drive up wages only if we have more-productive, higher-value-added industries and sectors in Northern Ireland. It is also about bringing in higher-level functions.

We do not need to look very far — just south of here — to see the benefits of a low corporation tax regime, plus the skills and infrastructure growth that we have seen in the Republic of Ireland over the past 20 years. That is continuing to power on. It has significantly higher wage levels.

The opportunity cost would be us giving up the opportunity to transform the economy, create more opportunities and career paths, retain more of our best people in Northern Ireland and attract some people back. That would filter through the economy, whether companies are large, medium-sized or small or companies in the retail sector. That is why there is such a broad spectrum of support for it in Northern Ireland. It is not just about attracting global investment but about facilitating the development of, in particular, medium-sized companies in Northern Ireland. Our evidence is that at least eight out of 10 of them, perhaps more, would reinvest profits back into their businesses and develop them, whether through skills training, innovation or higher pay levels. We would have a more productive and sustainable economy.

**Mr Humphrey:** On business rates, when the Chamber of Commerce was with us, I raised the issue of a businessperson in Belfast who came to see me having been hit with a rates bill of £76,000. Business representatives like you believe that rates are too high. What is the CBI's view on business rates at the moment?

**Mr Smyth:** The rating revaluation that we have just had has caused there to be winners and losers, and we have been arguing that for the past 20 years. The revaluation has to be undertaken every five years. We have seen significant losers. You do not hear from the winners, unfortunately, because they are better off. We want stability. It is a system that is based on property values, and so on. There is a major review of rating going on at a national level. I understand that we will look at the outcome of that. Ultimately, the rates bill is unlikely to change, and there may be more winners and losers, so it is going to be difficult. The particular problem, and we have heard a number of concerns recently from the losers, as it were, is that there is such a big gap between valuations that they have been hit by a very significant increase, and that is very difficult. Companies want stability. They want to know ahead what is happening to energy prices or whatever, and they then do their best. The trouble is that they have been given less than 12 months' notice of a very significant hike in the costs, which there is not a lot that they can do about. A more regular valuation is one way of addressing that. As I said, there are going to be winners and losers.

**Mr Humphrey:** Mr McKinney touched about the silo mentality, and I think that you mentioned the curriculum and a statutory requirement for young people to have work experience. I listened to what you said, and I appreciate the work that your organisation has done. How can we get a more joined-up, collaborative approach from business, the education authorities, the universities, the regional colleges, and so on, to do just what you have talked about, which is to attract more young people into the world of work and for them to go for apprenticeships in order to get long-lasting, meaningful and well-paid employment? Can more be done?

**Mr Smyth:** Of course more can be done. We put our hands up and said that, first, businesses need to be doing more. Some companies already do a lot. We need to get the message out that there is a terrific new route into apprenticeships. We are now developing apprenticeships. We want them to be seen as vocational A levels. We have a system that is very academically focused, but we need some of our brightest and best to be making sensible choices. There are very good career progression routes. Obviously, the new higher apprenticeships are developing. People may eventually want to go on to university or to take higher-level qualifications. That will take time. We know that a new qualification of any description takes about four to five years to become common currency and understood out there by the broader community. However, the direction of travel is good. Businesses have to play a bigger role in providing good-quality experiences in all of that.

We put a massive focus on the whole careers education and guidance piece. There is a structure government, both in DEL and the education system. The quality of careers guidance has been improving, but we need to involve more businesses in that. We need better labour market information. We need to indicate to a lot of our young people that most employers recruit on attitudes and behaviours. We do not measure that. It is built into the entitlement framework, but the inspectorate has a limited amount of commentary on those softer types of skills. It is very much qualifications-

focused, and we need to move away from that. That is our message across the UK. In Northern Ireland, we need to try to capture that. If we start measuring it, more focus will be put on it.

**Mr Humphrey:** Some of us were recently on a trip to Stuttgart in Germany, where we looked at how the city Government and the Bundes Government run the region. They do so very successfully. There is almost no unemployment. There is very little, if any, youth unemployment. Companies such as Porsche are a perfect example. Porsche was proactive. It went along to young people, many of whom were not qualified, and said, "We will give you employment, and we will train you in-house". I appreciate that not every company is a Porsche, but that is a huge risk that that company has taken. It is the sort of innovative thing that we need to see here: a collaborative approach from government but an innovative approach as well from the business sector to address the issues. Do you agree?

**Mr Smyth:** I agree. The position that Stuttgart is in is that the region has significantly larger — indeed, very large — companies with the infrastructure to be able to do that. In the past two to three years in Northern Ireland, we have seen a number of organisations, particularly business services organisations, some of which are national organisations, taking people from school. It is a case of "earn while you learn", and that is a new model. We do need to move away from what we do currently to a more flexible model. The likes of PricewaterhouseCoopers (PwC), Deloitte and Kainos are out there recruiting school-leavers straight from school. They are working them in the workplace and are linking with the universities. I think that that will happen more.

The challenge to overcome is that the vast majority of our companies are small and medium-sized. Even when we get into that medium space, having that infrastructure in a company to provide that level of training support is a lot more challenging than it is for a much bigger multinational. Particularly in Germany, there are a lot of very large companies. We should not underestimate the importance of that. In Northern Ireland, we are disproportionately represented by larger companies, and they have a very powerful influence on the curriculum and those types of initiatives. However, I totally agree that that will be a way forward, and we need to incentivise and encourage that. I think that the limiting factor is that there are a relatively small number of companies in Northern Ireland of the scale that could have that HR infrastructure to be able to do that. There is a lot of appetite out there for apprenticeships, and that is one of the routes. However, other work experience opportunities and other training initiatives are also involved.

**Mr Gavaghan:** We should also put more focus on business start-ups and on encouraging young enterprises, so I think that there needs to be a bigger recognition of the sort of American culture of starting up businesses. The CBI and other business organisations probably need to do more on that front as well.

**Mr Humphrey:** I think —

**The Chairperson (Mr McGlone):** Briefly, please, because we have to move on.

**Mr Humphrey:** It is not a question. As a result of the review of public administration (RPA) proposals and the new super-councils that we have in place, there are greater economies of scale, and more councils should be able to do much of the pump-priming of the like of the direct intervention that Belfast City Council was able to do in the days when I served on it.

**Mr Kinahan:** I am sorry that I was not here at the beginning. Fearghal touched on the issue of health and being able to afford certain drugs and others. That made me think down the line about whether there are hidden issues with the recalibration of devolution in Scotland, England, Northern Ireland and Wales. There are a lot of things that we cannot afford to do because we are too small. Drugs is just one issue, and there are others, such as pensions. Are there things that we should be looking for in that recalibration that will help us work better, instead of us just having everything devolved to Northern Ireland and being told, "That is your problem"? Have you looked at that sort of angle?

**Mr Smyth:** I will probably struggle to respond to that. I am not sure that there is anything that comes to mind that I have looked at, and I am looking to my colleagues. Part of the problem here is that we have caused additional problems for ourselves through decisions by the Executive on domestic rates, lack of charging for water, student fees and very favourable public transport. We have caused an even bigger problem. In health, prescription charges is another example. It just seems crazy that the initial cost was estimated at £14 million yet it is costing in the order of £30 million. It is very nice to have, folks, but I am not sure that, in this day and age, it is affordable to do that. Hence, we have

difficulties with other issues. Some of the decisions made by the Executive have caused a difficult situation, and we have supported, and continue to support, the fact that we need to reduce the deficit at a national level. Nobody wants austerity, but the reality is that we are spending beyond our means, and we have to bring spending down. The interest rate payment is vast and increasing. Part of that problem is very much that we have created even more problems. I am not sure what there is to say on other policy issues. Is there anything?

**Mr Gavaghan:** Energy is an issue on both islands. By being more joined up, we can create better leverage. Forgive me for going back to the subject of cities, but the fact is that you have to have a critical mass in a city, and Belfast has a population of 300,000. All things being equal, Belfast should be a population in the centre of half a million to a million. In my view, that is where we need to focus our energies.

**Mr Fry:** I think that there is still clearly the issue that, before we start going down the route of seeking additional power transfer or anything further from Westminster, we still have to consider the fact that, in the context of corporation tax, we still have not got the power. The outgoing Government set the case that we need to have sustainable public finances. I am just making an assumption, but I think that a majority Conservative Government's definition of "sustainable public finances" is probably different from a coalition Government's definition. That is still a big debate that has to be had. If you do not resolve it, you simply do not get the power. That is something, from this, that will hopefully start that debate. As yet, that debate does not seem to have happened.

**Mr Kinahan:** Thank you. On a slightly different tack, we have one enterprise zone being planned, and I know that Belfast International Airport is keen on being an enterprise zone. Do you think that enterprise zones are something that actually work, and would work in such a small province as ours? Is that the right way in which to look forward? Should we have a series of enterprise zones? Should we have one? What format should enterprise zones take?

**Mr Smyth:** Going back two to three years, we looked at enterprise zones as part of the discussion around corporation tax and other matters. At that stage, the evidence, from looking back to the late 1980s and the 1990s, was not overly convincing, I have to say. We certainly did not believe that they would be a game changer. They could certainly have a local, subregional impact. We came down on the side of believing — this view is shared by other business communities — that corporation tax is the key way in which to go if we really want to transform the economy.

I would not take away from their potential. As you said, the one in Coleraine is still planned. I do not think that it is even up and running yet. Yes, it could have a local impact, and we would not take away from that, but it is not going to have the strategic, transformational impact that, we believe, a lower corporation tax rate will have.

**Mr Agnew:** Thank you, gentlemen. I am sorry that I missed the start of your presentation. However, I have heard your response. You have asked for an:

*"Employment Law framework which supports a flexible labour market".*

We have obviously heard a lot of concerns raised around zero-hours contracts, which, I imagine, would be part of that flexible labour market. How do you balance the needs of business to have flexibility against those of employees to have stability and predictability in employment?

**Mr Smyth:** Let us take on the issue of zero-hours contracts. The issue involves only a very small part of the workforce, of the order of 3%. We accept that there are abuses of it — for example, the exclusivity clauses — and we support that view. The numbers have not been growing massively, as has been indicated. Some 60% of the people who are on zero-hours contracts are quite happy with being on them. Therefore, there is a lot of misinformation out there that zero-hours contracts are awful. For many people, they are a way in which to get back into the labour force, and many are quite happy with them and their flexibility. As I said, we accept that we need to get away from the abuses. In all of this, it is about balance. We expect to have an employment Bill come to the Assembly next month. We are now in a position in which we lag behind reforms in GB. A number of laws are putting us in a less competitive position than the Republic of Ireland. Ultimately, our political masters will decide on that. The point that we make —

**Mr Agnew:** Can you give some specifics?

**Mr Smyth:** One example is redundancy periods. We have redundancy periods that are much longer — three times longer — than those in the Republic, and they are twice as long as those in GB. However, that is not the biggest issue for many companies. GB has now moved on unfair dismissal, from 12 months to 24 months. A number of our members were keen to move in that direction.

Look at the system of tribunals, which is a very interesting example. People need access to the law, and we do not have a problem with that. However, there are a lot of weak and vexatious claims out there. Great Britain has introduced a fee-type system that has reduced the number of industrial tribunals by 70% over the past 12 months. Those very frivolous claims are now being disappeared from the system, while genuine claims go through it. The level of fees set was higher than what the CBI recommended, but such things create fairness. I am regularly out and about visiting a lot of companies, and there is a frustration that a small number of individuals are being vexatious or whatever. There is a bit of a have-a-go mentality. Companies tie up time and resources in tribunals, rather than spend it on growing their business.

You are absolutely right that there are people who are being unfairly treated by unscrupulous employers, or mistakes may have been made. Those people need access to justice, and it is absolutely critical that we provide for that.

The view was that the system is very much one in which the employer is guilty until proven innocent. We think that, at a time when we need to maximise the number of people who are employed, the balance needs to move back a little bit more towards the employer side. At the moment, it very much favours the individual, and, in some cases — in many cases — claims are fairly frivolous or weak.

**Mr Agnew:** When we look, for example, at the figure for the number of people living in poverty, we see that over 50% of them are in work. There is always this line about making work pay. I always object to the fact that we seem to do that by cutting benefits rather than by looking at employment. How do we make employment work for people? Some of what you are saying is around reducing conditions for workers. If over 50% of people who are in poverty are in work, that is evidence that employment does not work for some people. Admittedly, it obviously works for many.

**Mr Smyth:** Since 1997, with working tax credit and other things, the percentage of people who are now on benefits has certainly risen very substantially and is significantly higher than that for those on unemployment benefit. We recognise that. We all have an aspiration to have a higher-paid economy in Northern Ireland, but, to achieve that, we have to have higher productivity. We can afford to pay more on a sustainable basis only if we are in higher-value-added and higher-productivity industries. Therefore, that is part of the reason that we have strongly supported the cut in the rate of corporation tax. That will bring higher-value-added industries to Northern Ireland and will allow many of our existing companies to invest more in innovation and R&D and move up the value chain. We anticipate and, indeed, the evidence is that higher wages will follow on the back of that. We are sympathetic, but there are no short-term fixes. Ultimately, it is about driving up productivity. Eventually, with a labour market that operates efficiently, pay rates will go up to reflect that.

**Mr Agnew:** Some of the evidence around a living wage suggests that it would, in itself, raise productivity. Does the CBI have a position on the living wage? Do you encourage the living wage in your organisations?

**Mr Smyth:** We certainly believe that the living wage should be a voluntary approach. We encourage those companies that can afford to pay it to do so. The key issue with the national minimum wage is how it should be set. We are very supportive of it. The introduction of the national minimum wage was probably one of the most successful Labour Party proposals, but it is set independently by the Low Pay Commission (LPC). Again, in that, there is a balance to be struck. If it goes up too high too rapidly, it will undermine jobs. The issue is getting the balance between rewarding and having a floor. We need to accept that it is just a floor and a benchmark. If it goes up too high, it will take away opportunities out there, and that is the ongoing challenge. When companies are facing investment decisions about automation and various other things, they are looking at costs and at how they can take costs out. If you start to drive costs up much higher, the impact will be that there are fewer opportunities. There is a balancing act to be done. We believe that that is best done by the Low Pay Commission. Clearly, in the run-up to the general election, we were quite concerned at political commentary around that. We do believe that the LPC is a sensible way forward on that. In Northern Ireland, we have the highest level of low pay, so it is very important from our perspective too that we get it right.

**Mr Agnew:** You will be aware of the Oxford Economics report on the living wage. It estimated that, if it were introduced, on 2012 figures, the living wage would bring in £132 million in extra consumption through increased wages to the economy. I know that the living wage or a higher floor, as you put it, for wages can be seen as a disadvantage to business, but, of course, if it increases demand and consumption, it can also be a driver for economic growth.

**Mr Smyth:** That has been in the debate over the past number of months. I know that a lot of companies are very concerned about where we stand on the living wage, because it would put their businesses at risk — certainly their levels of employment. We have to take that seriously. Yes, it is something to aim for and to be encouraged, but we believe that the minimum wage, independently assessed annually, is the right way in which to go.

**Mr Agnew:** In your document, you refer to the need to raise the:

*"ambition and aspirations of our society to ensure we deliver on the 40,000 additional jobs"*

that are predicted to come from a reduction in corporation tax. When you state:

*"raising the ambition and aspirations of our society",*

what do you mean? What are you getting at with that point?

**Mr Smyth:** What we are getting at there is that it will work only if we get our education and training right to do that level of alignment. It will bring in significant investment. We will require a lot more jobs. Some of those will be new jobs and skills. Some will require experienced people. That will require more people, whether they be those in STEM subjects, ICT or the creative industries. We may wish to see more jobs in advanced engineering. Again, we need to have skills forecasting, understand the impact and make sure that we communicate right the way down into the school system through our careers advisors etc, so that we align what people do in schools with an understanding of what will happen in the economy and where they can fit into that. We continue to lose a lot of people every year at A level, and the vast majority do not come back. We believe that this will create more productive, sustainable, higher value-added jobs. We clearly want to maximise the number of Northern Ireland people who can take advantage of that.

**Mr McKinney:** Given that we lost, for example, nearly 30,000 jobs in the construction industry during the bust, and that there are over 312,000 inactive adults, is 40,000 jobs by 2023 in any way ambitious?

**Mr Smyth:** One would like a bigger figure, but that is what the best assessments are indicating. These are additional, high-value-added jobs; you have to look at the other things. The evidence is that this will drive up productivity and wage levels. There is nothing else; we have not seen anything else that will help to bring about that level of transformation.

**Mr McKinney:** On that point, is transformation required to get us to a higher ambition? What would that transformation look like?

**Mr Smyth:** Corporation tax is one element. We tried to prioritise in our report the things that would really maximise the impact. Bringing down corporation tax could have a modest impact. We need to do the right things and plan, looking in particular at infrastructure. That was the message we heard yesterday. Infrastructure takes a long time to plan, so we need to go ahead and set out that plan. As the Chairman said, it is about having that economic vision for where we want to go. If we do everything right, we would like to think that we can exceed those targets. That is part of the future for Northern Ireland. It will be a much more highly productive, more self-sustaining, higher wage economy. We will attract more people into Northern Ireland and train the people that we have here to come back so that it will be a much better place to be and more successful overall.

**Mr McKinney:** The headline figure of 40,000 would only bring us back to where we were. Will there be the dynamic to drive infrastructure and other developments that we need to take ourselves beyond that?

**Mr Gavaghan:** Your question is very fair. I was talking to a man last week who was starting a new distillery in Belfast, and he touched on exactly that point. You make a very good point about the level

of economic inactivity. Maybe we need the public and private sectors to sit down and say, "Maybe our ambition is not great enough, and we actually need to double or treble that." I entirely accept the proposition, and I think that we should spend time looking at that.

**The Chairperson (Mr McGlone):** I see that your most influential factors when choosing to invest are access to markets, political and economic stability, the nature and level of regulation, and that type of thing. I am picking up on the first two in particular wherever I go. The referendum on Europe, which you touched on earlier, could remove or dilute access to markets and, indeed, contribute to political and economic instability. Have you a more hardened view other than just to say that you want a reformed Europe? A reformed Europe could go from one extreme to the other. Is that just the CBI's diplomatic way of trying to catch all its members?

**Mr Fry:** The first point that I would make about our position on the European Union is that, as Nigel said earlier, 80% of our UK members want to stay in a reformed European Union. I remember a consultation event that we held in the summer of 2013, and there was nobody around the table who would even contemplate leaving the European Union. There was just a simple, straight answer back. I know what the views of the parties are that make up the Executive in general: I heard them aired through the manifestos over the last two weeks. However, I do not know what the view of the Northern Ireland Executive is. I know what the Scottish Government's view is, as well as the Welsh Government's, the Irish Government's and the European Union's. I broadly know what the UK Government's view is. Given that, within the UK, we are the most susceptible region because of the proximity of the land border, it is important that the Executive, at some point over the next few years, if not rather sooner than that, tell the UK Government what their collective position is. One of the things that we have been critical of the Westminster Government on — Chair, you may recall the discussions during the last mandate — is the carbon price floor. That was being taken forward at a UK level, and it may have suited part of the UK, but we would have been significantly hit by it until we, DETI and the Committee took it forward as an issue and were able to find a resolution. You must make that case clearly and in a coordinated manner. That is a major concern that you would hear from both indigenous and foreign direct investors among our members. It is causing unsettlement around future investment.

**The Chairperson (Mr McGlone):** Absolutely. One of the things that we hear quite often — it is quite often glibly thrown away — is that the EU equals increased red tape. But as we delve further into that, we see that the red tape has been caused by the interpretation of what they perceive to be the regulations that have emanated from Europe, and that can vary from state to state. In other words, you may have a quite rigid interpretation of something here, which, 50, 60 or 100 miles down the road, has been interpreted in quite a liberal way. Therefore, a lot of this comes back to the national Governments and how they do things.

I have heard from farmers who are deeply concerned about their single farm payments, which will impact on the agrifood sector. I have heard from SMEs, 60% of which do business with the rest of the island, that are looking at increased red tape if anything stupid is done in Europe. Many of the bigger firms, which you represent, do business with mainland Europe. I hear your point very loudly and clearly. It is up to the Executive to give a very clear marker about what their position is in regard to Europe. That is how you see it. I will reflect on that. It will be very important, especially for inward investors, to establish with clarity and stability what exactly will happen.

**Mr Smyth:** That will clearly be a major issue over the next two years. I referred to the 'Our Global Future' report that we produced in 2013; it is a bit of a tome. In that, we set out at a very high level some of the reforms that we think are necessary from a business perspective. It is about ensuring that EU is much more outward looking and about unlocking the potential of the single market in services, the digital sector etc. There is also a big focus on regulating for growth and ensuring that, where regulations are made, they are appropriate, whether at a European or a national level. There is a fairly broad business agenda around that.

The basic note in the report is that the cost for individuals is about £116 a year but there is a benefit of £1,200 a year, so the UK is actually much better off being in Europe than out. That view is not unanimous. We have some local members who are dissatisfied, and a lot of that comes from the regulatory part; they have said that they are fed up with the regulations. As you rightly said, Chair, how the UK has implemented that through legislation is an issue. This will be a significant challenge.

**Mr Gavaghan:** I want to make one point on Westminster. Nigel and I attended a lunch yesterday with people from Invest NI, which had its global get-together this week. From a foreign investment point of

view, as investors look at Northern Ireland and decide whether to locate here, the two key business decisions are corporation tax, which lies with us, and the European Union decision. It would be great if we could get a decision on Europe. It is there, a date has been set, and we want to see it done by the end of 2016. Business decisions on location will be put back until that decision is made. From a Northern Ireland point of view, more than 6,000 jobs in the pipeline have been identified by Invest NI, and you can imagine that a lot of those organisations will hold back on those decisions. Obviously, there is already a pipeline there, but, when you look forward to 30,000 or 40,000 jobs, those are key issues. If we are to transform from a public sector-focused environment to a more private sector-focused environment, we need to get that moving as quickly as possible.

We know what the issues are. John Cridland spoke very well. He spoke on the radio at the end of last week. One of the issues that we do not focus on sufficiently — we all know this when we cross the border — is the simple idea of a single market. We pay more for our mobile phone service, which is preposterous and not good for efficiency or competitiveness. There is a whole area where we need to get on with the European vision of a single market. My view would be "Get on with the decision as quickly as possible".

**Mr Frew:** The Committee heard evidence about the cost and associated bureaucracy around the regulations from the Northern Ireland Assembly, the UK and, of course, Europe, and that was despite moves by DETI to improve the regulations and to try to smooth away the red tape. What are your views on the regulations in their present form? Is it getting better or worse for businesses?

**Mr Smyth:** We are keenly aware, and we have contributed to the reviews that were started nationally and have been reflected also in DETI locally. For us as a cross-sectoral organisation, the big issues have been around the employment stuff; we covered that and we are going to have an Employment Bill. We believe that that certainly has got worse and has maybe gone a little bit too far one way. The other factor is broad environmental legislation, and there have been some initiatives to try to deregulate it and make the regulations better. You have to look at lot of the regulations that impact on businesses on a sectoral basis, whether it is tourism with the pubs or the food sector. I had a recent communication on the telecommunications side. There are some regulations that are unique to Northern Ireland and that put us at a competitive disadvantage compared with the rest of the UK. I think that that is the way forward: regulations have to be looked at sector by sector. The CBI has 160 trade associations as members, and some of those local sectoral organisations are already engaging with DETI on that. Again, it is about trying to understand the impact and looking at where it is disproportionate and where we are at a disadvantage. I accept that we struggle a lot in that area because there is a constant battle. The employment issue is our biggest general concern because it is cross-cutting.

**Mr Frew:** The other issue that crops up is energy. The Committee has done a lot of work on that over the last number of years. We have had the energy debate and all the threats and pressures that are associated with it. For large energy users — large industrial employers such as manufacturing — it is a massive issue. The costs are some of the highest in Europe, if not the highest. I think that we are second only to Italy at present. Do you believe that energy is a massive issue for all the members that you are connected with and represent? Is it one of the biggest issues? If so, do you see ways of dealing with it? We are an island off an island off Europe, and there will be restrictions on what we can do with a limited grid.

**Mr Smyth:** It is fair to say that, for many companies, energy is not the biggest issue; it is skills and various other things. However, there are a small number of significant large companies that are energy intensive and where energy is absolutely a critical issue, particularly in manufacturing. However, it is also reflected in Northern Ireland in that we have no data centres. We saw the announcement a few months ago of a massive investment by Apple, and there is already a number of data centres in the South. We think that their prices are around 10% less than ours. The South has a lot of large energy users; they are growing, and they are bringing in more large energy users, so the cost is shared by everybody. Northern Ireland seems to be in a perverse position in that we are at the very top, bar Italy, and we think that we may have even overtaken Italy with the tax changes. We are losing some of our larger users. Bombardier will come off the system and JTI Gallaher is leaving — they would be top 10 users — and we are not attracting data centres, so the outlook is very difficult.

For a lot of companies in the commercial sector and even for a number of ordinary manufacturers, energy might be 1% of costs, so it is not the key issue. Yes, they will complain about it, and they complain about the rates, but there are a small number of very big companies where energy

represents 10% or 20% of costs. This is a pretty horrendous place to be for them, and we have not attracted them.

As for answers and solutions, we have been at the Committee over the last few years, and you have done your own inquiry. There is no silver bullet, but there are a small number of steps that need to be taken, whether it is addressing things such as constraint costs in the single market now costing upwards of £160 million a year, and that is increasing. The North/South interconnector is an absolutely critical piece of infrastructure, and everybody needs to get behind that, North and South. We need to get that in place. The big issue that comes with that is the security of supply post 2021. We are going to have to make other decisions. We may have to invest more money and all of that will add to the cost.

I think that we have been a bit slow off the mark around demand-side reduction and aggregated supply. That is starting to move, but it is one way in which you can reward some of the large companies that back up generation. We have seen some regulatory approval for that, but we have been a bit slow and there is more potential. The problem that we are now facing is that we have a very congested network and getting permissions for all of those is proving difficult.

We need to be more interconnected. We have had some good news on the Moyle interconnector in the past month or two in that it will be restored and at a lower cost than was anticipated. The extension of the gas network is going ahead and that, again, is more good news. We have issues around the public service obligations costs. We believe that some of the costs that businesses are picking up are additional proportional costs; likewise, there are some environmental levies, as well as the network charges. That is the big difference in the South, where they made a political decision. This is probably a grey area: they are in the same place as the rest of Europe in that the domestic sectors pay marginally more, but the larger users pay less, which makes them competitive. That is the main difference between us and the South.

Some of the environmental charges in Northern Ireland are higher and will become even higher with the energy market reforms that are happening in GB in 2017. Perhaps this has hit us only over the past couple of months. Again, it is hard to see what the solution would be. We have a difficult situation. A small number of things could be done, and it is very important that we address those issues to try to make things better and give the larger users who are most vulnerable some sense that we are going to address those prices and that they are going to become more competitive.

**Mr Frew:** There is no one on this Committee who is harder on the Department in energy debates than me. I have a certain sympathy for the Minister because the destiny is not her own; there are so many players in this sector and they all need to come up with solutions.

One good thing about last week's decision — I do not know whether you picked it up — is that around €111 million is coming out of the capacity pot, which will help ease the pressure on the people who then have to bear the capacity payments. I believe that that is basically due to lowering the cost of borrowing, but I have not got the detail of that yet. Again, that will help business. Because there are so many players, would it be fair to suggest that, looking at the bar chart of the most expensive states and countries for energy, we set a target, as we have done for renewable energy, that we hit mid-range and put pressure on all the players to achieve it and come up with their own solutions? Would that be a fair target to have?

**Mr Smyth:** As part of the Department's current consultation on the electricity market reforms and various things, our response states that we should have a target, but that it should be an emissions target. Ultimately, we have to decarbonise. We support that, but we need to do it at the least possible cost.

Part of the issue that we have, particularly with the microrenewables in Northern Ireland, is that they are very expensive and, ultimately, they are paid for from the economic development budget. That is fine, but when it is some of the largest companies who are most vulnerable who are paying for this, then, hey folks, we may end up not having some of those big companies around. It is about the least cost.

We think that the best way forward is to have a target, but to have an emissions target, because part of the solution here is energy efficiency. That really must remain a top priority. Renewables are part of the solution too, but it will be those at the least cost. Yes, if you want to encourage some of the microrenewables and new technologies, there should be some other fund or support available to

achieve that. I do not think that Northern Ireland should be ploughing its own furrow by putting a penalty on our large users in favour of some of the microrenewables.

**Mr Frew:** Many years ago, the Department set a target of 40% renewable energy. It was not all in its gift, but it basically just set a target. That may well be reviewed very soon, because it is very clear that trying to hit a 40% target for renewable energy would be very costly. That may well be moved, and I would welcome that. However, although all those years ago we set an arbitrary target of 40% and told everybody to reach it, surely it would not be beyond the realms of possibility that the Department would tell all the players in all the sectors that, for the second most expensive energy in Europe for large industry, the target is now in the mid-range of that and that they should get down to an acceptable level. Achieving that would let the pressure all drop to the other players. Moving down that target or down that graph would save money because it is basically a cost graph of how much energy costs. So, moving down that scale would be of benefit to everyone, including, and probably most definitely, large industry and large users.

**Mr Smyth:** At a European level, the targets have changed. The CBI was quite strong in pushing for an emissions target rather than specific ones for each area. We can achieve that emissions target, whether it is through renewables, energy efficiency, decarbonisation or the use of alternative fuels. You are right: we are up at 19% and 20% and, as we go above 25%, the network costs are considerable. A broader target may be required. One of the problems that we have not fully understood until now is the impact of the targets on costs. The Department has done some work on that, and it is absolutely critical that it gets a handhold on it.

We believe that the Northern Ireland renewables industry could be competitive. There are public policy issues regarding planning, rating etc. We would like to see a very strong renewables industry. That is likely to come from large wind generation and some of the biomass energy from waste etc. That is advantageous because it is being bid back into our system.

**Mr Gavaghan:** If the chairman were here, he would probably welcome a discussion with you on that. We should definitely follow up on it.

**Mr Frew:** Obviously, the UK-wide contract for difference debate could have severe consequences for the renewables industry in Northern Ireland. You are fully aware of that?

**Mr Gavaghan:** Absolutely.

**The Chairperson (Mr McGlone):** Gentlemen, thanks very much for your time. It has proven very interesting. We have other written questions that we will submit to you, if that is OK, but that concludes our session for today. It was good to see you all again.

**Mr Smyth:** Thank you very much for the opportunity. We will be happy to respond to your written questions.

**The Chairperson (Mr McGlone):** Thank you.