

Mr Shane McAteer
Northern Ireland Assembly
Committee for Finance and Personnel
Committee Office, Room 419
Parliament Buildings
Belfast
BT4 3XX

23 May 2008

Dear Mr McAteer

We refer to your letter dated 9 May, requesting a short critique of the outcome from the Varney reviews from our organisation, the ICAI.

We are happy to contribute the following analyses of the Varney Review of the Competitiveness of Northern Ireland:

Overview of the Review's Findings

We do appreciate that Sir David Varney and his team are faced with a difficult task of framing policy for Northern Ireland into tried and tested and nationally applied policy for all of the United Kingdom. However, our overriding impression of the Review is that it fails to put forward solid strategy for Northern Ireland specific to its needs. Economic strategy for Northern Ireland must be bespoke and detailed taking the best of the United Kingdom's reputation as a stable and progressive world leader and the best of the experience of its island neighbour's recent economic and tax policy success. The Review is general in its recommendations and does not get to the heart of policy strategy which NI needs to prepare it for success in the 21st century. It ignores the real lynchpin of success to the Irish story which is in the implementation of a coherent range of policies and incentives designed to attract FDI, increase high-end job creation and sustain an innovation economy using tools such as the 12.5% rate of corporation tax, and availability of tax incentives targeted at specific business sectors and geographical regions.

It is the responsibility of all of Northern Ireland's stakeholders to continue the case for implementation of innovative policy so that Northern Ireland can get its chance at the economic success denied by the turbulent past. With this in mind, we have identified ten aspects of the Review in need of further consideration. While we have already highlighted these particular issues in our various submissions, and indeed in the evidence we have already provided to the Committee, it may be no harm to state these issues again:

Employment and Skills

1. In our submission providing evidence to the Review on Competitiveness, we noted that Sir David placed greater importance on supply factors to stimulate the economy. Economic evidence points shows that factors such as host country size, per capita income and cost base minimisation policies such as corporate tax rate are the key factors to the stimulation of FDI and economic growth. We believe that the Review should have placed greater emphasis on these factors when studying competitiveness in Northern Ireland.
2. The ICAI made the point in our submission providing evidence to the Review that academic advances need to be tailored to commercial specialisms and vice versa. Each major school in the university should build a mechanism to ensure that the course content, the nature of the learning experience and its commercial relevance is enhanced by structured input from commercial and industrial leaders. The relevance of the undergraduate provision in the universities and its relevance to the needs of the economy and the associated personal qualifications should be reviewed drawing on international expertise and the in-house expertise of the local universities.
3. The Review does make good recommendations in respect of encouraging employment and enhancing the quality of skills in NI. However, we are disappointed that the Review did not make more specific recommendations to targeting quality employment growth in specific areas such as the information and financial services sectors, and manufacturing sectors such as life science or aeronautical engineering. Again, skills and employment growth must be developed in tandem with a clear and specific economic strategy in mind.
4. The Review seems to suggest that the public sector pay should be reduced to come in line with the private sector pay levels. We recommend that policies should be put in place to encourage private sector pay levels to be instead increased with public sector pay levels. This could be achieved through the introduction of incentives to make paying good salaries cheaper for businesses. Employer costs on the private sector could be reduced by introducing a tapering scale of Employers NIC whereby the effective rate of NIC decreases as wage levels increase; a reduced rate of employee NIC for private sector employment; and a separate Private Sector Employee tax allowance.

Investment

5. The Review does not make any recommendations to support the ICAI's suggestion that RoI could be an important source of FDI for NI. The Review does talk about working with the Irish development agencies such as IDA and Enterprise Ireland as a source for policy and initiatives for the purposes of developing NI but there is no mention of targeting Irish business to expand into NI. Of course the divergence of the

Corporation Tax rate would need to be addressed in order to seriously encourage the FDI investment resource of ROI.

Enterprise

6. The gap in the support for business which does not fit the criteria of enterprise looked after by Invest NI was not dealt with in the Review. ICAI recommends that particular effort should be directed to those businesses with more than 10 staff in the manufacturing and tradable services sectors but which are below Invest NI's employee numbers threshold for assistance. There is a need for a transition programme of financial incentives which would encourage start-ups to move along the business growth continuum to a size which would bring them to the attention of Invest NI.
7. Again the ICAI advocates targeted use of Invest NI funds specifically linked to businesses with growth potential. A prime area for tax incentives are measures to assist collaborative working between companies to exploit ideas with business potential but requiring the resources of more than one company to execute. There should be an emphasis on support for training as well as grants in export markets.
8. Invest NI should be explicitly asked to play an active role in facilitating business rationalisation where this would strengthen the competitive ability of local business given statistical evidence of transition in the business life cycles of the listed top 100 performing companies in Northern Ireland in 1998.
9. Following the need identified by us for a bespoke incentive package for a section of the UK with very specific economic needs, Northern Ireland requires specific R&D tax relief. In order to encourage more R&D in Northern Ireland, an increase in the tax credit available coupled with a relaxation on the rules governing what constitutes R&D expenditure would go a long way to increasing high-wage jobs and increased innovation in Northern Ireland.

Public Sector Reform

10. The Review does recognise the importance of infrastructure investment for economic development. We recommend that the investment in economic development can be further supported by planning authorities giving priority to early decision on applications from business and economic projects.

The issues we have raised above are very case specific. However, this level of detail is required to achieve the level of economic growth required for Northern Ireland.

I hope you will find the foregoing helpful.

Yours sincerely

Brian Keegan
Director of Taxation
Institute of Chartered Accountants in Ireland