



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

**Devolution of Corporation Tax Powers:
NICVA Briefing**

5 October 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Conor Murphy (Chairperson)

Mr Leslie Cree

Mr Paul Girvan

Mr David Hilditch

Mr William Humphrey

Mr Ross Hussey

Mr Paul Maskey

Mr Mitchel McLaughlin

Mr Adrian McQuillan

Witnesses:

Mr Seamus McAleavey) Northern Ireland Council for Voluntary Action

Ms Lisa McElherron)

The Chairperson:

I welcome Seamus McAleavey, chief executive of the Northern Ireland Council for Voluntary Action (NICVA), and his colleague Lisa McElherron. Please make an opening statement and then I will invite questions and we will have a discussion.

Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action):

I thank the Chairperson and Committee for inviting us to come along today. We have provided a

short briefing paper, which is a synopsis of the paper that we gave to the Treasury in response to the consultation on rebalancing the economy.

I will give you our perspective on the devolution of corporation tax and the possible use of that power to reduce the rate of that tax in Northern Ireland. NICVA's interest is very broad and encompasses a broad range of voluntary and community organisations. Its membership of over 1,000 is drawn from across Northern Ireland and includes different types of organisation. We tend to focus on what we think might benefit Northern Ireland as a whole but, particularly because we look after the interests of voluntary and community organisations, we look at the impact on people who are disadvantaged. That is our primary focus with regard to this issue.

We engaged with the Treasury on the issue and invited the relevant officials across to Northern Ireland. We held a public meeting in NICVA for about 20 organisations and we discussed the issue in depth. Our position is that we are cautiously in favour of the devolution of the power to the Northern Ireland Assembly; we would likely support a reduction in the rate of corporation tax. However, there are two opposing, extreme positions. The first is that you oppose the devolution of the power and the reduction of the rate of corporation tax almost in any circumstances; the other is that you support the devolution of the power and the reduction in the rate of corporation tax in any circumstances. We are opposed to both those positions.

It is very important that this is done, not at any price but in a way that suits Northern Ireland. For us, the cost of a reduction in the rate of corporation tax is very important. Obviously, the figures as to what that cost might be differ wildly. It is very important that there is adequate scrutiny of the issue and tough negotiation on Northern Ireland's part with the Treasury.

The only reason that we think that we need do this is to try to create jobs and to attract foreign direct investment and jobs to Northern Ireland. NICVA has arrived at the position of believing that the current status quo is not good enough and has not been good enough for generations. We continually lag behind. We continue to have unemployment problems.

NICVA attended the economic conference yesterday at which it was remarked that in 1944, when the UK was at war, there was an unemployment problem in Northern Ireland yet labour was in demand everywhere else. So, we have difficulties that we have to try to solve. Our view is that the Northern Ireland Executive and the Assembly must find two, three or four key policy

levers that, if changed, might change the trajectory and future of economic development and increase job opportunities. Our focus is on that. We think that that has to be coupled with other policy interventions: on its own, it will not do the job. The general agreement is that it is not a silver bullet. One thing that we have been saying with regard to economic development is that there needs to be increased investment in upping skills and talent and we need to be able to retain the talent that we have. We recognise that capital is mobile in the world today, but so is talent. It can move as well.

The other thing is that we will clearly lose the power to offer grants to companies coming into Northern Ireland, which, in itself, may be no bad thing. There is a body of opinion that says that all the money in the world will not attract the right investment to a place if the talent is not there. Investors will not come to the wrong place, so we have got to invest in our own talent and its development. That is our opening position in regard to corporation tax.

The Chairperson:

I think that your central point is that your agreement on devolving the power is not simply about the rate but how the power would be used, the economic outcomes that you expect from doing so, and how a variety of other intervention levers may be used. Your paper suggests that you would want a device whereby if people avail themselves of a lower rate of corporation tax, there would be a return, or covenant, in that the advantage gained would be put back into the economy, particularly in the case of some of the institutions to which you draw attention, which, perhaps, are not in the field of job creation.

Have you tested how that may be achieved? Have you any ideas in relation to that? It is a notion that goes to the nub of where the corporation tax debate will be held; certainly in organisations such as yours, which have a broader range. They are not just about business; they are concerned with the impact that greater availability of finance can have in lifting the community across the spectrum here. Have you researched that aspect? Have you looked at any areas in which conditions could be attached to a reduction in corporation tax in order to achieve certain economic, social and training objectives?

Mr McAleavey:

We are not experts on tax and finance. We are aware that the UK Government and others have brought in windfall taxes. It is not beyond the bounds of possibility that that may be looked at as

a method of dealing with issues that we identified, such as the utility companies and banks. We are not for the giving away of free money to people who will not bring any added value. The Department of Finance and Personnel has to look at the situation and, as I said, craft things to suit us best within European Union rules on this issue. There are swings and roundabouts involved. We have to try to craft it to best suit our circumstances.

Ms Lisa McElherron (Northern Ireland Council for Voluntary Action):

As far as what the Azores ruling means for Northern Ireland and its impact on state aid and the changes to state aid, that is one of the things that are not clear.

When we put this paper together, we did not know that David Cameron was bringing together that group of Ministers to explore corporation tax. Now, we think that it is something that they really need to think about. First, is it possible? What does the Azores ruling really mean for us? Does it all have to be implemented carte blanche? Is the same rate applied to everyone who trades in Northern Ireland? Can there be exceptions or exemptions and can there be levels? I do not think there is any clarity on that. I know that officials from the Department of Finance and Personnel (DFP) will be speaking to you next, and they might know more than we do at the moment. However, when we wrote our paper, there was no clarity, particularly from Treasury officials, about what can actually be done. However, we need a mechanism to look at this matter in a structured way.

Mr Humphrey:

Thank you for your presentation. Seamus, you said that you were cautious, and that comes through in your paper. Even now, the Secretary of State, who was a flag-waver for corporation tax, seems to be rowing back on his position. Even the most enthusiastic parties are cautious about it because the difficulty for the Finance Minister and the Administration here is that if the money is removed from the block grant, it is a fixed amount, whereas corporation tax is variable.

In your paper, you expressed concerns about volatility and about ensuring that the potential deficit will not have an adverse effect. Have you fed your concerns to DFP and Sammy Wilson?

Mr McAleavey:

Yes, we have. One thing that we know about corporation tax is that it is very volatile. As non-

financial experts looking at it, we see a lot of smoke and mirrors. We know that large numbers of very successful multinational companies quite often do not pay a lot of corporation tax. Last year in the United States, the biggest company in the world, General Electric, made a profit of £14 billion and it did not pay any corporation tax because quite a number of things were offset in that year against its tax. You can set borrowings and things like that against the tax, so it is volatile. That is why we raised the issue.

What could be looked at in discussions with the Treasury is when and how Northern Ireland pays. We need to know how much we pay, because Northern Ireland's corporation tax take is very unclear. If we have to pay from the block grant, that is an important issue. However, some of that can be deferred. Those who argue that reducing the rate of corporation tax will make a big difference say that the benefit shows up quite quickly. If that is true, we should be able to trade that angle with the Treasury if increased taxes are collected in Northern Ireland before that. However, as I said, it is a very difficult area. Cost is very important, and how we pay for it is critical.

Ms McElherron:

We have had different quotes on what the costs might be. They range from an optimistic £90 million to a figure of £475 million, which is a very unacceptable variance. This is a risk. There is absolutely no doubt about it. We are not averse to taking a risk, but it needs to be a calculated risk, particularly when we are talking about the bigger end of the scale and the impact that that will have on the block grant.

Mr Humphrey:

In your paper, you mentioned job creation and the creation of meaningful jobs, as the tax is varied. In an ideal world, that would be absolutely right, but given the economic situation that prevails across the globe and the difficulty that is particularly hitting these islands, there is no certainty or guarantee around that.

I was at a presentation by Invest Northern Ireland last week, which said that it is clearly targeting jobs to generate wealth. There are so many imponderables and variables in the economy that it is difficult to know how that can be guaranteed, especially in light of Invest Northern Ireland's announcement this morning. It said that it will give money back to the Department of Enterprise, Trade and Investment (DETI), which in turn will go back to the centre, as it simply

cannot get people to invest because private sector companies are just so cautious.

Mr McAleavey:

You are absolutely right; foreign direct investment flows is one of the issues that we flagged. Clearly, this morning's announcement about Invest NI returning a total of £24 million to DETI because companies cannot take it up is a really big issue. Scrutinising and proceeding with caution is, from our point of view, the right way to go about it.

Ms McElherron:

You mentioned wealth creation, and that brings in another of our main concerns. We understand and appreciate that we are chasing high-level jobs, and we think that that is a good thing. Seamus always says that capital is mobile and so is talent. We want to attract talent here and keep our own talent at home. However, we are also concerned about those who are unemployed right now. We are concerned that about 55% of unemployment benefit claimants do not have formal skills or qualifications. It is no coincidence that about 33% of unemployment benefit claimants are looking for low-level, unskilled jobs. We are thinking about what happens now to those people.

When the First Minister and deputy First Minister launched the social investment fund last week, they said themselves that the idea of wealth creation and focusing on the economy was not trickling down into every community in the North and that they wanted to focus on that. We are concerned that by placing a big focus on corporation tax and putting a lot of resources in that direction, those who are furthest from the labour market now will be placed even further behind. So, the silver bullet is not just about corporation tax; it is about delivering an entire economic strategy to deal with the statistics that we are faced with now and trying to raise the bar, with high-quality jobs and wealth creation.

Mr Humphrey:

The Executive's decision to freeze tuition fees will help to retain the best people and to prevent the brain drain that Northern Ireland has suffered over the past number of decades, whereby people have largely gone to the mainland. Hopefully, those people can be retained, but we can retain them only if we have high-quality jobs, as you identified.

As a representative of North Belfast, I raised the following point with the Minister for Employment and Learning: it is important not only that we attract foreign direct investment and

retain such people, but that we make sure that we go into hard-to-reach communities where there are fewer opportunities. Not every young person wants or has the ability intellectually to go to university, so the Department for Employment and Learning needs to provide the same number of places and courses to ensure that young people get vocational training so that they can go on to become electricians and joiners.

If we are serious about improving manufacturing and developing creative industries, we need to train people to work in those industries. I am pleased that when I asked Stephen Farry about that, he said that he would protect those places, because we cannot just think about those who are in a position to secure blue-chip jobs. We need to protect the interests of younger people and ensure that they get meaningful, long-term employment that helps them. That is, ultimately, how we will address the whole issue of poverty in Northern Ireland.

Mr McAleavey:

We agree with that. We do not think that trickle-down will work effectively. Even if it were a very successful measure, we agree that, because of our place in the world, we have to go out to attract high-end foreign direct investment. We will not be able to compete with countries with low-cost manufacturing operations, so we have to attract high-end investment. However, we then need to consider, in our strategy, what we should do for low-skilled people. We have to think about how to upskill them.

In the long term, we also have to focus on education, because we are not cutting it internationally, when you look at how people at the low end score in literacy and numeracy. We feel that this would only be part of a wider strategy, which must consider what you do with people. Even if it were successful, it cannot be left to trickle down, with the idea that more service jobs would be created downstream because more money is circulating. We need a strategy to make a connection with people who are far away from the labour market.

Mr Cree:

That is very interesting. As you know, we had a fair amount of airing of this subject yesterday. A lot of it was good, and a lot of it posed more questions than answers, but that is the nature of the subject. You mention the cost. You are right: it was estimated at between £90 million and £400-plus million. That is far too big a scope. You talk about a silver bullet, and everybody talks about silver bullets. I do not know why, because, from what I remember from my younger days,

silver bullets were for shooting werewolves. There are not many werewolves about.

Mr McLaughlin:

There are plenty of bloodsuckers about.

Mr Cree:

To talk about a silver bullet, you need to have a gun, which is the range of economic measures that is needed. That was a fair comment, so that should be the end of the silver bullet. Let us talk about the gun for a change.

The purpose of corporation tax is to try to allow more profit to be generated, which, in turn, should be reinvested. That is the significant point. That is very important. I was particularly interested in what you said about the situation in 1944, because I would not have thought that possible. What does it mean? There was high unemployment in 1944, when lots of people were away because of the war, lots of people were pressed into service and industry was never better. Did that sort of economically inactive group exist in 1944? That is a big issue that we have to address.

I was also particularly interested in the cost of borrowing, and you have mentioned that in your paper. I agree that the introduction of corporation tax powers must be phased in, to allow the minimum cost to be charged back to us. It has to develop before you pay. However, subsequently, there will be shortfalls. Yesterday, I asked a question about borrowing, but I did not get a very good answer. Obviously, there is still certain statutory borrowing, without the reinvestment and reform initiative. How important do you think that is for plugging the gap? How necessary is it to borrow to iron out the peaks and troughs?

Mr McAleavey:

States could not do without it, because they could get hit or rocked by the volatility of a tax case. Yesterday, we heard that there is a facility between DFP and the Treasury that can cover emergencies if something very different happens. I think that it was Victor Hewitt who said that. He seemed to suggest that there was a possibility for a discussion on how you could smooth those things out. There were other comments from Graham Gudgeon along those lines.

The key issue is that we have to negotiate a very good deal, and we have to make sure that we

are not wildly exposed and that we do not lose, as an unintended consequence, a big chunk from next year's block grant for which the Finance Minister or you, the Committee, are not prepared. That is part of this negotiation; it is the absolutely critical thing.

Mr McLaughlin:

The paper is a very useful contribution to the debate. It is succinct, and it focuses on the issues on which there has to be further exploration or about which people have to think very carefully and strategically. For me, the option of not doing anything does not exist, because we see the level of dependency that there is and the fault lines in our economy. The balance is wrong and because we are not generating sufficient wealth, people recognise that. I suppose the serious fault lines in relation to essential skills, such as literacy and numeracy and other basic skills, go back generations. A recent Public Accounts Committee report showed that 25% of our current workforce have significant literacy and numeracy problems, and a further 30% demonstrate more moderate difficulties. Of that 55%, the people with the most difficulty were those in the 55 to 65 cohort. So, it goes back a long time. Essentially, we are dealing with a failing economy, so we do not have the option of doing nothing.

With regard to the silver bullet argument, no one seriously argues that this is a one-stop shop. It probably opens the door to a scenario that might be a bit worrying for some: that you need a suite of powers to be transferred so that one can complement the other. That debate has not been developed sufficiently, and the issue of borrowing powers is one that we are obliged to look at. If current arrangements or facilities are sufficient, we can come to that view; if they are not, that opens up another issue to be negotiated or explored with the relevant authorities.

There probably will have to be some objective system of measuring the gap between what the Treasury and the Executive are estimating. Again, that will involve some fairly hard-headed discussions. There will have to be a presentation of data to support each estimate, because they cannot both be right. The fact that it is so mysterious and non-transparent is, in itself, very interesting.

We have to get away from the fixation with the impact on the block grant and take ownership of a process in which we decide, in a strategic fashion, to deal with the issue of the block grant by growing our economy and becoming more self-sufficient. It is probably unrealistic to expect our economy to become completely self-sufficient, but, quite evidently, we can do better. This is

about finding ways of doing things better.

Your contribution has been very helpful in focusing that discussion, but people are going to have to recognise that simply trundling along as we are — we are just bumping along the bottom — will not result in a recovery, unless there is a recovery somewhere else and we get caught up in the back flow.

Mr McAleavey:

We agree strongly with that position. Clearly, there is a risk, but we are in favour of taking a calculated risk. The do-nothing option is rarely a good one.

NICVA took part in the Economic Development Forum, and I was involved in that. I chaired the medium-term strategic priorities group, and we, along with DFP and DETI, commissioned some work to look at the medium-term strategic priorities that we set for the economy, which were generally agreed by everyone, to find out where they were likely to take us over 10 years. Unfortunately, we found that they are going to take us nowhere; they will either flatline or, in many cases, do worse. So, it has been obvious for a long time that we need to make changes. That is risky, which is why people tend to shy away from it.

We have another risk emerging to the block grant. The probable position of David Cameron was that he would go for two years of austerity measures and then be able to slacken off, if the UK economy picked up. We are not seeing that happen, and we are seeing a very volatile situation in Europe with regard to the euro. There is a long way to go until we are out of the woods with the world recession.

So, there is a real danger that the UK Government could come back with an even bigger squeeze the next time. Having thought that they might have been able to pull back from that position, they might think that they are not able to. So, there are various threats to us as well, and I agree strongly with what you are saying: if we can take things into our own hands to do something about them, we should.

The Chairperson:

Seamus and Lisa, thank you very much for the paper. I agree with Mitchel: it is a very concise paper, but it gets to the nub of some of the issues that we are dealing with.

Ms McElherron:

We have a 24-page version, if you would prefer that.

The Chairperson:

As Committee members get a lot of papers, we like them to be short and sweet. Your briefing has been very useful, and, no doubt, we will continue the discussion with you as the debate moves on. Thank you very much.