NORTHERN IRELAND

NI 08 09

CBI submission to the Independent Review of Economic Development Policy

Executive Summary

- **The key to enhancing the effectiveness of government policy interventions is the need to overcome the risk averse culture which exists across government and the need to develop a 'can-do' culture. Developing a more 'outcome focused' culture, with appropriate performance measures and incentives, will help create the necessary transformation. Further streamlining and simplification of support schemes is essential**

- **The current focus on enhancing R&D, innovation, exporting and business improvement are correct. But as these feature prominently on the agenda of most other regions/nations it is how this support is delivered which will make the difference**

- **There is strong support for focusing resources on those companies with the ambition, and capabilities of growing their export markets, and building and commercialising their Intellectual Property. Developing a critical mass of indigenous companies who can compete internationally is essential**

- **The development of skills, more closely aligned with the needs of the economy will be critical. A greater share of resources should be focused on improving leadership and management skills, and in developing business improvement capabilities**

- **High value manufacturing has a key role to play in the economy, in addition to expanding tradeable services**

- **Tourism offers significant potential, and we need to ensure the right leadership, structures, and resources are in place to increase Northern Ireland's market share**

- **Other Departments have a critical role to play in improving Northern Ireland's competitiveness and raising productivity:**

- **Improved education outcomes (including essential skills and greater numbers of pupils studying STEM skills) will make Northern Ireland a more attractive investment location**
- **Faster planning procedures will enhance the region's ability to be agile and responsive**
- **Improved strategic road network will improve Northern Ireland's internal connectivity and journey time reliability, and also improve labour mobility**

- **Post 2010/11 the growth of the economy will almost exclusively depend on the performance of the private sector as public expenditure is likely to be severely constrained. Maximising the value of government interventions to enhance growth, productivity improvements and increased activity levels will be essential.**

Introduction

1 In December the Enterprise minister, Arlene Foster announced a review of economic development policy, under the chairmanship of Prof. Richard Barnett. The overall aim of the Review is to ensure that DETI/Invest NI's policies, programmes and resources are targeted to help achieve the stretching productivity goal outlined in the Programme for Government.

2 CBI Northern Ireland welcomes the opportunity to submit a paper to the Review Team. This submission reflects the views of CBI members following consultation through its Committees and the CBI Northern Ireland Council. The timing of this review is also an excellent opportunity to take stock of the global economic downturn, and the impact this is likely to have on economic development in Northern Ireland. The future will be different than many envisaged only a year ago, and while there is a current focus on retrenchment and consolidation to survive this deep recession, there will be opportunities which Northern Ireland companies need to be encouraged to take. Economic policies are needed to improve Northern Ireland's competitiveness, help accelerate the growth of the private sector and close the regional disparity gap with the rest of the UK.

3 The response is structured around the key issues set out in the terms of reference, following some remarks on productivity.

General Remarks on Productivity

4 There is some tension between the two key goals set by the Executive in the Programme for Government – productivity improvements on one hand, and improvements in activity rates on the other. There must be recognition that progress in achieving one goal, may be at the expense of the other. In the current severe economic downturn the CBI believes an immediate focus must be on maintaining employment levels, and activity rates, but in the medium and longer term we fully accept the importance of focusing on improving productivity, and targeting high value-added employment.

5 As part of the review team's outputs it could usefully develop a greater understanding of the productivity goal and how it is to be achieved, rather than the simple GVA/head measure. Clearly overall productivity consists of various components including activity levels, economic structure and individual company performance.

A The current and forecasted performance of the Northern Ireland economy, relative to other regions with access to similar policy instruments, programmes and resource

- We believe other economists will be better placed to comment on detailed past performance and forecasts for the Northern Ireland. However we wish to highlight a number of key issues
- Over the last decade we have seen significant growth in productivity in the manufacturing sector – less so in tradeable services (more people intensive, and arguably less potential to replace people with technology, while the sector has also experienced an important growth in (lower value-added) call-centre type of activity). Indeed the manufacturing sector has significantly outperformed the rest of the UK during this period. However in the future technology is likely to be of critical importance to all sectors in improving competitiveness and adding more value
- Looking ahead the Northern Ireland growth rate will be severely constrained post 2011 as public expenditure growth is likely to be significantly less than 1% and may turn out to be close to zero (due to constraints in UK public expenditure) - this means that there will be even greater reliance on the relatively small private sector to achieve the PfG goals
- This period will also see tighter EU state aid rules which are likely to inhibit Invest NI support in the form of Selective Financial Assistance to larger companies in the future, particularly post 2010. Northern Ireland will need to have all the tools at its disposal to attract/retrain high value added Foreign Direct Investment (FDI) in the future and retain mobile indigenous companies – multinational companies are critical to economic development helping to drive productivity and introducing new technologies, high performance workplaces, high quality management etc
- A greater understanding, and more transparency, regarding the productivity and value of FDI to the Northern Ireland economy (and its related supply chains) would be useful
- With Northern Ireland becoming an Objective 2 Region attention should be paid to how other successful Objective 2 regions are performing and how they are transforming their economies. Account should also be taken of the recommendations of the European Commission's Northern Ireland Task Force Report, April 2008 especially Chapter 7 dealing with industrial development. This chapter makes specific recommendations about how Northern Ireland's Industrial Development Framework can be aligned better with that of the European Commission
- The importance of understanding the relative competitiveness (in its widest sense) of the Northern Ireland economy is critical – valuable work by the Economic Research Institute of Northern Ireland has been undertaken on benchmarking Northern Ireland's competitiveness. This should help inform policy makers on key priorities for improvement.

B Current DETI/Invest NI policies and programmes, with an assessment of their effectiveness in stimulating productivity improvements, particularly within manufacturing and private services

- CBI NI does not have access to the necessary information to make detailed assessments of the effectiveness of existing policies and programmes, though we do have extensive views and evidence from our members drawing on their experiences
- Over recent years our members have supported the change in direction of Invest NI policies, and we have welcomed Invest NI's new Corporate Plan 2008-11 launched last year – with its strong focus on research and development, innovation, exporting and business improvement – albeit we believe more ambitious targets need to be set – greater clarity on the level of resources allocated to each area, and the outcomes from these would clearly be useful
- Productivity improvement in every sector is key – it's productivity growth that really counts. As highlighted above Northern Ireland's manufacturing performance has significantly out-performed the rest of the UK over the last decade – we believe a key reason for this has been the support available to the sector to encourage investment in capital, people and R&D
- Creating world-class companies means companies need access to world-class consultants (more flexible mechanisms need to be found to help companies access this expertise where appropriate)
- We would support a stronger focus on growing and transforming existing businesses, rather than encouraging more start-ups per se. A key weakness in Northern Ireland is the relatively small number of large indigenous businesses (and few listed companies). With regard to start-ups resources should be focused on technology-led and export orientated companies. A greater understanding of the contribution of different types of start-ups to achieving enhanced productivity is needed in order to prioritise resources. CBI members believe there is a risk of significant deadweight in this area.
- The most significant concern historically from CBI members has been the excessive delays and bureaucracy associated with securing government support (comparing very unfavourably with experiences with Enterprise Ireland) – significant improvements in processing times have been achieved for small (less than £100,000) grants over the last 12-18 months, and a new streamlined 'research' grant appears to be designed to be much more customer focused.
- In terms of benchmarking Northern Ireland's productivity performance with other regions/nations some care is needed – for MNCs Northern Ireland is largely a cost centre, reflecting the relative high tax environment which the UK has now become – with a significant number of UK subsidiaries where profits in Northern Ireland are not disclosed, official figures are likely to underestimate Northern Ireland's overall productivity levels
- One area which Northern Ireland needs to pay even greater attention is to skills – and while the labour market has softened considerably over the last 12 months this will be a key area in the medium/longer term, particularly in STEM skills.
- In the short/medium term a stronger focus on supporting an increase in exports is likely to be bear fruit, although support is restricted by EU State Aid rules – however efforts to maximise the support available to help companies increase their exports must be a key priority

- One other key area which is worthy of specific mention is tourism. Northern Ireland still has an underdeveloped tourism sector, with significant potential (both in lower valued added areas with major potential for employment creation, but also increasingly in moving parts of our tourism sector up the value chain), while the sector also offers provides wide regional opportunities. While our lack of aspiration may be one barrier, there appears to be a significant failure to facilitate the speedy delivery of major projects, partly explained by failures in planning policy. In a detailed submission to the NITB's draft corporate plan last year (available on CBI's website) we outlined weaknesses in leadership, structures and resources in maximising Northern Ireland's tourism potential
- More generally consultation is also an excessively lengthy process in Northern Ireland. In order to speed-up decision making a "fast-track process should be agreed and introduced, with endorsement from the Executive. Speedy implementation of policies and initiatives is required with clear milestones and timescales

C Policy options to stimulate economic growth / productivity and build a larger and more wealth creating private sector, particularly in financial and value added business services

- The CBI believes that high value manufacturing has a strong future and must not be overlooked. Indeed we believe it has a central role to play in the future. We need to build on NI's manufacturing success in last decade which has outperformed the UK and, excluding the clothing/textiles sector, has more people employed today than 10 years ago and significantly higher productivity and output – there are also significant number of people in the service sector, including high value professional services which rely on this manufacturing base
- Tradeable services export c£672m per annum (2007/8 figures) compared to over £5.46bn for manufacturing, though services are growing at a faster rate. There is a real need to find a way to increase export potential within the service sector – a greater understanding of the barriers is necessary – is it attitude (and a traditionally strong home market), scale (the vast majority of tradeable service companies are small), or lack of competitiveness, or has there been a failure to develop the appropriate support mechanisms to assist export-led growth in this important sector of the economy
- While agreeing with the need to grow financial services, the current global financial turmoil suggests that this might be a sector with significantly less growth potential than in the last two decades, although there will be niche opportunities ie in financial related software. In terms of the future development of financial services in Northern Ireland, there is a strong case for a more proactive approach by the DETI and Invest NI to try to anticipate future developments. For example it seems obvious that in the future there will be much higher levels of financial regulation and hence a significant increase in the compliance operations of financial institutions. Such compliance services can be outsourced and could be provided here in Northern Ireland, building upon the good work already done by Invest NI.
- There is clearly a need to identify and pursue those sectors with growth potential and competitive advantage in Northern Ireland – the recent MATRIX reports have outlined some key opportunities here – but we still await a government response (indeed the slowness of response reflects a major and broader problem facing

Northern Ireland) – other reviews (STEM review, Careers strategy, Planning reform) frequently take considerably longer to develop and finalise thereby acting as a major constraint on Northern Ireland's ability to be agile and responsive to market opportunities and in creating a more competitive environment

- Through the government reform agenda Northern Ireland has developed a number of outsourced 'shared service' centres – there must be a significant market opportunities outside of Northern Ireland for these centres to provide high value services
- In terms of policy priorities CBI members highlight leadership and management skills as an area which has not received the priority in terms of government support that they should be getting – this needs to be a key priority in the future. This needs to include support for, and the provision of, high quality leadership and management training and development, as well as the development of mentoring provision, Non-Executive Directors and improved succession planning. Government support in identifying and nurturing this talent, while also leveraging the expertise back into the wider business community could provide a valuable stimulus. With some companies, greater success is likely to be achieved through mergers and acquisitions (though clearly the latter is an area with government intervention is more difficult)
- We believe a key focus in future must be to 'internationalise' many NI companies – and suggest a programme focused at identifying perhaps 40-50 companies with significant export growth potential and providing them with tailored and focused support to accelerate their growth
- Likewise it may be sensible to target 100 clients with significant growth potential by providing enhanced leadership/management development support, and identify and support say 30-40 companies with significant potential to commercialise their Intellectual Property. Economic policy should also remain focused on attracting 4/5 blue chip FDI in priority sectors to enhance overall capabilities in these sectors
- Innovation has been rightly identified as a priority by DETI/Invest NI – though there is a risk that current policies are too technology driven, rather than being market driven
- Branding – few NI companies have branded products/services – an initiative (perhaps focusing on skills/expertise) to support the development of brands may be useful. In both branding and in innovation (especially in non-technology areas) there is a strong case for identifying and spreading 'best-practice'
- Reducing the bureaucracy/processing times of support schemes of critical – some good progress has been achieved recently and this needs to be built on. Larger proposals which involve DETI and DFP still appear to be taking excessive amounts of time to approve

D How NI can further attract value added FDI and promote domestic investment

- There is a clear need for strong political leadership which recognises the importance of wealth creation and is committed to policies which support enterprise and the development of a more competitive environment. There needs to be clear recognition that there is intense competition for mobile investment , and Northern Ireland needs to be able to provide a competitive package which can attract, and indeed retain, investors

- Delivering on the goals set on in Programme for Government are important – especially regarding education, skills, infrastructure, planning etc. It is only through delivery of goals (or achieving clear milestones in a timely fashion) that confidence in the ability of the Executive to deliver will be achieved. Recent experiences regarding the Maze stadium project do not bode well. Delivery against key timescales is necessary.
- Creating an adequate skills pool is critical – there has been some good work undertaken in the ICT sector (jointly between DEL and the sector trade body, Momentum) and this needs to be developed in other sectors too. Improving the quantity of STEM skills is critical – we continue to await the outcome of the STEM review (expected several months ago) and government response. Achieving a significant increase in STEM graduates and post-graduates will be a key means of supporting the transition to a knowledge-based economy – an early commitment to this aim will also have a beneficial impact on companies considering investing in NI
- As referred to earlier, the early implementation of MATRIX recommendations is needed
- Reforms of the planning system are promised, and are essential – delays in the planning process are a major impediment for many indigenous investments (on modest scale investments/extensions) as well as larger projects.

E Review and advise on the structure and remit of Invest NI and the existing governance arrangements between DETI, DFP and Invest NI

- clearly there is still excessive delays/bureaucracy with major project approvals which involve DETI and DFP – this needs to be addressed. Delivery is the key issue – bureaucracy needs to be kept to a minimum and be proportionate to the scale of public sector support
- With a limit on public sector resources Invest NI has narrowed their support down to export led companies and key suppliers. There is an argument that there is a gap with those companies with the capability of becoming Invest NI clients which are currently 'looked after' by enterprise agencies (who currently run the 'start-up' programme) or who may operate totally independently. Under the Review of Public Administration (RPA) local authorities will take on greater responsibilities – ensuring quality and consistency of support to these enterprises will be important, as will be the need to identify potential 'stars' with significant growth potential.
- While access to business information through www.nibusinessinfo.co.uk is valuable many small companies will benefit from a mentor/advisor to sound out ideas and issues – there might be a current gap here which needs addressed
- The new chairman and board are making a difference to Invest NI – with CBI members experiencing a more responsive organisation, and a good strategic direction
- Achieving a more outcome focused culture across the organisation remains a challenge - the introduction of performance related pay, below senior management levels needs to be seriously considered (many CBI members refer to the strong commercial focus displayed by IDA executives)
- Some members have also argued that there should be greater clarity, and perhaps separation between strategy setting by the DETI, and implementation by Invest NI, and other agencies.

- There has been a welcome improvement in the quality and commercial experience of Invest NI client executives in recent years (and more stability)

F Identify any issues which may inhibit the delivery of the productivity goal which fall to other Departments in the NI Executive, particularly DEL (in relation to skills) and DRD (in relation to regional planning and infrastructure investment)

- To be successful Northern Ireland must be agile/responsive to opportunities (and threats) so it is critical that 'government' as a whole is 'joined-up' and able to deliver in a timely manner – this is probably the most important issue to address
- The availability of skills is a critical area. While there has been some improvement in DEL/Invest NI engagement in the last 12-18 months we believe this needs to be developed further. We recommend that a senior management representative from DEL should sit on the Invest NI board, and likewise an Invest NI Managing Director should be represented on the management board of DEL. Also every Invest NI client executive should be aware of the key support programmes and initiatives being promoted by DEL and through the key agencies/forum which it supports ie Sector Skills Councils and Workforce Development Forum (DEL lacks the direct engagement with companies)
- An ongoing barrier to enhancing the productivity of the economy is the continuing high number of pupils emerging from the education system with inadequate essential skills – this needs to be addressed at primary level with some greater urgency. We have welcomed the amendment of the GCSE target to include maths and English. Improving the take up of STEM skills, assisted by more effective careers education, information advice and guidance, are also essential outcomes to help improve Northern Ireland's competitiveness
- The planning system remains a key obstacle to the delivery of the productivity goal – proposals are being developed by the Environment Minister, but as of mid February these do not appear to have secured Executive support, nor a formal consultation period commenced. Yet radically reforms and a transformation in planning delivery are long overdue
- Infrastructure – in terms of transport policy delivering the existing plans for strategic road network (as set out in the Investment Strategy) will deliver a much enhanced road network and make a significant improvement in internal connectivity within Northern Ireland (and especially to the west of the Province). Average speeds on the strategic road network are only 43 mph. Similarly proposed improvements to the public transport network will be welcomed by business and help improve the accessibility of workplaces to jobseekers. However the policy decision to provide free transport to over 60s would have been much more economically focused if it had been directed at providing free transport to the long-term unemployed for say the first one to two years or returning to work
- External accessibility to/from Northern Ireland is critical – we are well served by port facilities and ferries, with significant capacity planned – indeed freight costs out of Northern Ireland are very price competitive (due to the imbalance in trade flows). Air access has improved significantly since 2000 with extensive access to European destinations in recent years and a strategically important New York service. Access to/from Great Britain remains excellent with extensive competition which has benefited consumers and tourists in recent years.

- Telecommunications – important to have high speed broadband rolled out across Northern Ireland
- Energy costs (electricity and gas) remain considerably higher than the rest of the UK, and until the recent devaluation of sterling continued to be some of the highest costs in Europe and globally. Continuing efforts to develop more competitive prices, while facilitating the a least-cost route towards a lower carbon generating footprint are essential

G Consider the optimal way by which the Minister of Enterprise, Trade and Investment engages with key stakeholders on economic development issues

- There is no single means in which the Minister should engage with key stakeholders. It is important that he/she has direct access to companies (through visits), ongoing engagement with representative bodies such as the CBI, while we also believe there is value in a structured broader forum including other key stakeholders such as the Economic Development Forum (EDF)
- The EDF is a key existing forum established after Strategy 2010 was published several years ago - some particularly useful work has been undertaken in its subgroups over the years. While not perfect the forum has value, including ensuring there is a good understanding of the economic vision, key policy priorities, as well as the challenges facing the economy across all key stakeholders
- The First Minister and deputy First Minister have referred to a social partner advisory group, but this has been on agenda for 12-18 months, and there still remains little clarity on what is intended
- It is also vital that Ministers have access to independent economic analysis and policy advice, drawing on an strong evidence base – there is a serious risk that policy making in Northern Ireland will be ‘populist’ driven as a result of the current structures (including Assembly Committees)

H Consider whether any improvements could be made to DETI and Invest NI’s working links within the NI Executive and on an east/west and north/south basis

- The CBI is not close enough to the existing operational interfaces between government agencies/departments to comment on what improvements may be necessary
- In addition to the ETI Minister the First Minister and deputy First Minister can play an important role as ‘ambassadors’ for Northern Ireland in attracting FDI and helping to improve and promote Northern Ireland’s new image.
- On an all-island basis we believe there is potential for further clustering and on a sectoral basis this should be encouraged further
- On an east-west basis maximum use should be made of services provided by UK Trade and Investment – an assessment of the key services in UKTI which may be of most benefit to Northern Ireland businesses would be helpful
- Enterprise Ireland has a good track record – and there is potential for more Northern Ireland based companies to tap into these resources too

I The sub-regional distribution of inward investment and other support measures to indigenous businesses, and the effectiveness of policy in encouraging the location of investment

- Addressing regional imbalance is important, but the over-riding priority must be to ensure the location of inward investment is in the longterm interests of the company's sustainable development
- FDI will be particularly interested in access to skills, telecoms, infrastructure, support services, and general access and connectivity issues
- Evidence from Invest NI indicates in the period 2002/3 to 2007/8 investment per head was £2654 in the west compared to £2325 in the east while FDI per head was £1222 in the west and £876 in the east.
- Improving the general infrastructure (roads, telecoms, energy) etc across Northern Ireland will clearly improve the potential of other key centres outside Belfast – major investment is planned in all these areas in the years ahead – unfortunately preparation and planning for major roads infrastructure does tend to take a period of years. Project Kelvin should will enhance the telecoms infrastructure across the west of the Province, while further extension of the natural gas network will also improve the attractiveness of the key centres
- Productivity of subregions outside Greater Belfast is very low – so there is potential for some lower value added FDI in these areas which could help close the productivity gap within NI

J Assess the challenging nature of the economic goals/targets contained in the Programme for Government and, where appropriate, recommend any change

- The severe economic turmoil will impact significantly on the key goals set in the PfG – both productivity and labour activity levels both look unachievable (though perversely if GB has a more pronounced downturn than Northern Ireland, which is partially protected by a high level of public expenditure) the productivity goal might still be achievable
- Unemployment is expected to rise sharply this year (and continue rising in 2010)
- FDI likely to reduce sharply this year and in 2010 – yet the PfG depends on 5500 high quality FDI jobs – this is almost certainly unachievable with ongoing turmoil in financial markets, the widespread recognition that the financial service sector will shrink and a deepening global recession – there may be some niche opportunities where Northern Ireland offers a cost competitive location
- We recommend the establishment of new realistic, yet ambitious targets (and consider the consequences). These targets should be built into the new Economic Strategy (which has been promised) which should incorporate short-term initiatives to kick-start the economy as well as long-term goals and objectives
- With less resources needed to support FDI this is an excellent opportunity to focus on developing existing FDI and indigenous businesses and accelerating their development into export markets. Given the current global economic conditions we need to identify and focus upon products/services and geographic areas with real growth potential, or those where we can gain market share due to Northern Ireland based companies being more competitive.

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CBI Northern Ireland