



Business Alliance response to Independent Review of Economic Policy, November 2009

Executive summary

The Business Alliance welcomes the overall thrust and majority of recommendations contained within the Independent Review of Economic Policy published in September 2009. The Review's detailed analysis provides valuable information and evidence, and deserves considered discussion and early action. We do highlight below our reservations and concerns on a small number of the Review's recommendations.

The Business Alliance strongly supports the following key recommendations, which we believe could lead to a step change in economic activity, and productivity growth:

- **A greater focus on R&D and innovation, a more ambitious and dedicated focus on exporting, and a greater focus on integrating SMEs into supply chains**
- **Providing Invest NI with greater operational freedom and the development of a more entrepreneurial culture and enterprising approach**
- **A further streamlining of Invest NI support programmes combined with increased delegated authority limits**
- **Support for DETI taking a leading role in the development of economic policy, combined with various proposals to improve governance and accountability arrangements, including the establishment of a permanent sub-committee by the First Minister and deputy First Minister, and Executive, to prioritise action on the economy and agree an economic strategy. As part of the review of Departments in the medium term we support the proposed merger of DEL and DETI, though parts of other Departments may also need to be included**
- **An immediate priority is to take forward with some urgency prioritised actions from the MATRIX initiative**
- **Realigning the education system to meet the anticipated demands for higher skills within the economy, especially STEM related skills**
- **The planning system to be more responsive with faster processing times in line with competitor regions**

Correspondence address:

CBI, Northern Ireland, Scottish Amicable Building
11 Donegall Square South, Belfast BT1 5JE – T: 028 9010 1100

- **A greater economic focus in the next Investment Strategy for Northern Ireland**

We do have reservations with some of the recommendations, which do not appear consistent with the Review's detailed analysis, and which have the potential to limit the development of the economy and create unnecessary inflexibility with regards the delivery of economic policy and achieve the goals of the Programme for Government (including increasing the employment rate). We believe these recommendations are inconsistent with the general thrust of the report, including the review of international experience, and may indeed reduce Northern Ireland's productivity. This is particularly relevant as we emerge slowly from recession with high levels of unemployment, especially youth unemployment, with an expectation that it will be several years before employment levels return to their previous peak. At the same time the Review's analysis does indicate that existing policies in these areas do need to be reviewed and in some cases realigned to support the need to enhance productivity and create an innovation driven Northern Ireland economy.

The Business Alliance has concerns with five key recommendations:

- **Most assistance delivered via SFA should be redirected between now and 2013 to provide greater levels of support to Innovation and R&D** - while we do believe **more** support should be focused in these areas, it would be unnecessarily restrictive, and undermine the growth of the economy
- **Grants for business expansions should be phased out towards 2013** – this is unduly restrictive and could prevent Invest NI offering an attractive financial support package to attract/retain key institutions. This will be particularly important over the next 3-4 years as we emerge slowly from a deep recession. The proposal is inconsistent with the Review's analysis of other successful regions, and if implemented risks the loss of existing high productivity businesses operating in Northern Ireland
- **Invest NI should reduce its support for company training** - we believe up-skilling the existing workforce is essential to achieve the necessary transformation into a high productivity, innovation driven economy. Support for company training is likely to be more important rather than less important. We recognise that the necessary support can be provided in different ways, either through assistance from Invest NI or by support via the Department of Employment and Learning and/or via Further Education Colleges and the universities
- **DETI should commence a case for retaining state aid limits that support the changes outlined in this Review** - we believe it is essential that Northern Ireland succeeds in securing EU state aid approval for retaining some form of SFA post 2013, and not just on measures to support investment in innovation and R&D. Without such support the ability of Invest NI to attract and retain international investment to Northern Ireland will be increasingly difficult

- **Aside from those funds designed to support seed stage projects, Invest NI should disengage its direct involvement with Venture Capital funds** – we believe it will be important for Invest NI to continue to participate in early stage VC funds, as well as seed capital, as is the case in other Regional Development agencies in the UK. We also believe Invest NI has a key role to play in facilitating the strategic development of private equity funds in NI (though they should not contribute to the actual funds)

More detailed comments and analysis of these recommendations are set out in the main section of this response.

There is also ambiguity and inconsistencies in some areas of the Review, and issues of interpretation in others which are unhelpful. A full response to all the IREP recommendations is included in the final section of this response. Before this we highlight a number of issues which have come up in discussion of the IREP report.

Some other key issues for consideration

Productivity – while there is much to commend the analysis presented in the review in reference to Northern Ireland's "productivity gap" (chapter 2 in particular), it is important to highlight some potential limitations and anomalies and to exercise some caution in interpretation. These issues are set out in Annex 1.

While the importance of driving productivity is not in dispute, the risk from the Review is that it will lead to misunderstandings, while economists/academics engage in a sterile debate about definition and measurement. The productivity agenda is clearly important, but as the Review identifies so is the need to increase exports, though disappointingly this does not receive a comparable level of analysis.

As the report highlights a key challenge for the wider Northern Ireland economy is addressing low levels of productivity in other key sectors, notably construction, retail, distribution and agriculture. Further work is clearly required into these key areas of the economy drawing on the substantial body of research which already exists to ensure appropriate policy measures are being taken.

Exporting – developing Northern Ireland's exporting activity is identified as a critical element of economic development policy. However the recommendations are limited (to ensuring more dedicated and professional staff, and adopting a fee-charging service). We would wish to emphasise that while agreeing with these recommendations we need to develop a more ambitious export strategy, and take forward with some urgency the recommendations from the EDF's Subgroup on Exporting which reported earlier this year.

Skills – the Business Alliance believes that a critical part of the process in moving towards a higher value and more innovative economy is up-skilling the existing

workforce. While the report focuses on education qualifications we believe it fails to understand the challenge and scale of transformation required in up-skilling the existing workforce, including the lack of skills required for 'advanced manufacturing'. The review states in Para 9.17 – *'the flow of skills into the labour market in NI is a key strength'* – we would challenge this statement which confuses good qualifications with good and relevant skills, especially those which are going to drive productivity growth.

This also fails to recognise that around half of GCSE students in Northern Ireland this year failed to achieve 5 'A'-'C' grades including maths and English. However the debate is wider than measures of qualifications such as GCSEs. The issue of tackling skills problems raises structural questions concerning the primary and post-primary education systems. Present policy seeks to tackle the symptoms rather than the causes of people having low levels of essential and workplace skills.

Creating a more entrepreneurial culture in Invest NI – the review highlights the importance of investment agencies having cultures which are responsive, fast-moving and work to overcome bureaucracy. Section 6 on global best practice stresses the importance of *'developing a pro-business and high performing investment agency. Key to this is the ability to maintain low levels of bureaucracy within the organisations, which allows them to be responsive to the needs for investors and gives them the freedom to take risks'*. The Business Alliance agrees that a cultural change, focused on achieving outcomes, rather than in meeting processes, is a key requirement. Evidence of how the IDA operates suggests we have many lessons to learn from their culture and their 'licence to operate' with an ethos that is entrepreneurial rather than compliance driven.

Competitiveness - the review does not address the issue of competitiveness which is a critical dimension both at the level of the firm as well as the region. Empirical observation confirms that resources (capital, labour, technology) and talent tend to concentrate geographically (Easterly and Levine 2002). This result reflects the fact that firms are embedded in inter-firm relationships with networks of suppliers, buyers and even competitors that help them to gain competitive advantages in the sale of products and services. While arms-length market relationships do provide these benefits, at times there are externalities that arise from linkages among firms in a geographic area or in a specific industry (textiles, leather goods, silicon chips) that cannot be captured or fostered by markets alone. The process of "clusterisation," the creation of "value chains," or "industrial districts" are models that highlight the advantages of networks and which makes an area internationally competitive. A focus for economic development must include such actions that would increase the competitiveness of firms as well as economic structures that promote collaboration and geographic clusterisation of growth sectors. Competitiveness of firms within Northern Ireland will be enabled by continued investment in a competitive

infrastructure such as telecoms (Digital Britain), Connected for Health and Education (C2K)

Sectoral issues - the Business Alliance strongly advocates the urgent implementation of the Matrix sector Horizon Programme including a new 'clean' energy infrastructure. We believe there are real opportunities for Northern Ireland firms and organisations to develop a branded unique selling point as a "Green or Clean Region" across the full range of sectors as recommended in the Matrix report (volume 1:10, 2008). This includes the need to promote cross-sectoral collaboration and innovation within industry led communities to address global market opportunities. For example: the integration of ICT and health, the integration of ICT and electrical power distribution or food as a medicine. Industry champions and or industry led groups should be supported to facilitate and drive forward the economic development agenda across these sectors.

Media coverage of the IREP launch - the Business Alliance was extremely disappointed at the media treatment of the IREP Report which presented an unfairly negative view of Invest Northern Ireland, largely ignoring the very positive work that the agency has undertaken in challenging, globally competitive markets, including more recently during the severe economic downturn. Leading on from the media coverage, there have been some similarly unhelpful comments made by our local politicians. Such comments do not support efforts to put the economy at the centre of the Programme for Government and take little account of associated negative consequences. The Business Alliance would urge the media, politicians, business and other influencers to focus on the positive attributes of the Northern Ireland economy and start to talk ourselves up, not down.

Detailed Response to all of the IREP Recommendations

Business Alliance Response to all Recommendations

1.As part of the review of structures within DETI (proposed in Chapter 8), the department should ensure that more resources are dedicated to policy development and monitoring

We agreed – this is a sensible proposal. It is important that the Department has appropriate capability and skills. The Department must also display leadership in policy development and analysis but avoid an undue focus on monitoring at the expense of development.

2.DETI should appoint an independent economic advisor (with extensive experience as an economist) to strengthen capacity in economic policy making

This needs further consideration as part of the review of the Economic Research Institute of Northern Ireland – it is not clear that a particular individual will bring the right evidence base or experience to assist in improving policy making. Indeed in Section 8 of the Report which looked at other regions there did not appear to be one region which relied on an individual per se. Those providing advice should have some experience of the business world, and not be pure

academics.

3.The concept of Invest NI ‘clients’ should be removed to allow Invest NI to work throughout the entire business base to raise awareness and provide support for businesses undertaking Innovation, R&D and exports

We agree that Invest NI should not limit its support to a specified client base.

However we do believe that resources should be focused on those companies with the ambition and capability of growing their export markets (defined as sales outside NI) and in supporting companies involved in related supply chains – this is consistent with the overall thrust of the reports proposals.

We strongly support extending the availability of ‘soft support including information, seminars etc to a much wider range of companies but this should aim to encourage pull through to growth. It would be foolish to raise expectations that many small businesses servicing local markets will be able to avail of grant support. Many small and micro-businesses often need access and signposting to advice (marketing, finance, management, etc) and mentoring rather than grant support. Any proposal to extend support (for innovation, R&D and exporting) more widely to small and micro-businesses could require additional resources.

Invest NI needs to work effectively with other partner organisations (including Local Councils, Enterprise Agencies, FE Colleges in particular) in the delivery of support to address the needs of small companies with growth potential. This need not always require additional resources; rather a coordination of partner organisations. The engagement process with smaller companies needs to be streamlined and client focused, with any grant related funding significantly streamlined to reflect the capabilities of the company and the overall risk to public funds. Overall there is a need for a more joined-up and co-ordinated approach to address the specific needs of small companies.

4.Invest NI should work to significantly reduce the number of its support programmes

This recommendation is strongly supported by Business Alliance – this has been a key priority for some time, and while progress has been achieved since the establishment of Invest NI, businesses will welcome further rationalisation. Invest NI and partner support should be client focussed not programme focussed.

In addition to streamlining support programmes, and particularly in the immediate future, Invest NI needs to improve its ‘route maps’ towards existing programmes and focus on those with the greatest impact on performance improvement. For example, and in keeping with DETI innovation strategy, promote and support the Investors in Innovation programme to enable firms and organisations become more innovative and therefore sustainable.

5. Most assistance delivered via SFA should be redirected between now and 2013 to provide greater levels of support to Innovation and R&D

We believe **more** support should be focused on innovation and R&D. There is emerging evidence from Invest NI that this is currently the direction of how assistance is being provided, especially under their current Corporate Plan. However focusing **most** support on these areas

will be unduly restrictive and could undermine the growth of the economy (and the achievement of the best outcomes) during a period when employment growth is likely to remain a high priority, due to:

- The need for Invest NI to offer a competitive package to retain and attract mobile investment
- Restricting support to innovation and R&D may severely restrict the level of support available to companies due to the EU definitions of the type of support that can be provided to companies (while the IREP definition of innovation is broad, there is a real risk that the EU's definition of innovation and the support that may be allowable in this area will be much more restrictive)
- We need to retain existing high value, high productivity investments in NI – while we anticipate future investment in such companies are likely to meet the broad 'innovation criteria' defined in the IREP report there may be occasions when it doesn't. Indeed the loss of existing high-value businesses from Northern Ireland would clearly undermine the entire goal of improving the region's productivity.

We also wish to stress that projects which are innovative or high value may require support in their entirety (including SFA support) if Northern Ireland is to develop, attract or retain them.

We acknowledge that SFA will become a smaller contribution as EU State Aid rules tighten – but we should avoid unnecessarily restricting financial support beyond this.

The report is critical of 'repeat assistance' but in reality even the most successful economies (as highlighted in the report), provide 'repeat assistance' to key companies/institutions. Clearly repeat assistance should be avoided for the same project. In practice most companies will be developing new and more value-added projects – where necessary support for these projects should be focused at ensuring more value-added activities are performed and the companies are encouraged to become more embedded in the local economy, through the development of supply chain, and enhanced research and education/training links with our Further Education Colleges and Universities. This would have the added benefit of assisting in up-skilling those not in the labour market by developing skills that industry needs.

Business Alliance members have also highlighted the fact that competing regions within the UK and nations provide their own support packages, often including grant-aid, as well as support for innovation and R&D – Northern Ireland cannot afford to 'have its hands tied behind its back' in seeking to attract and retain the right type of investment. We do accept that Invest NI may need to be more selective with the types of investment targeted.

Furthermore economic growth is likely to be very slow over the next 2-3 years, as we emerge from a deep recession (and possibly longer with major constraints and potential cuts in public expenditure take effect). The employment imperative is likely to feature much more prominently during this period and this must be reflected in the nature of support Invest NI is able to provide.

6. Grants for business expansions should be phased out towards 2013, after which such grants are unlikely to be available under EU state aid rules

We disagree with this recommendation, which raises serious risks about the support available to encourage and retain internationally mobile investment (and is thus inconsistent with the report's emphasis on '*attracting, developing and retaining high value investments*'). We accept that the

levels of support offered by SFA will decline over the years to 2013. We do not accept that SFA will no longer be available post 2013 – negotiations and agreement with EU authorities have still to be undertaken, with that process likely to begin in 2010.

Taking such a draconian approach as recommended in the report could seriously undermine Northern Ireland's growth potential, and the retention of existing high value/productive businesses. The recommendation is wholly inconsistent with the report's findings on the need to build and embed anchor institutions (Para 6.19) We already have a limited number of key players/institutions – yet the report recognises through its best practice research that developing key institutions is a key element in other successful nations/regions – for example the report states '*the continued long-term support has enabled the company (Nokia) to become more embedded in the local economy.....*'. The Review also states that '*Successful regions place intense focus on attracting, retaining and embedding anchor institutions.*' We know that closer to NI the ROI government has continued to offer repeat support to major multinational companies which have resulted in critical scale and mass in key business sectors. Business expansions are increasingly mobile in nature, and not just in multinational companies, and Northern Ireland needs to ensure it can continue to compete in attracting these investments.

We believe there should be a greater focus on appropriate business expansion opportunities. We suggest that grants for business expansions which 1) do not achieve increased productivity or 2) do not support existing high value employment or 3) do not relate to innovation (as defined in the IREP report) or R&D, should be reduced.

Northern Ireland must continue to offer a competitive package of support relative to other regions/nations including the Republic of Ireland. Northern Ireland continues to lack scale in key sectors, indeed this is one of our biggest challenges; to grow more medium sized indigenous companies into larger global players – it will be important that economic development policy can address this challenge. Policy makers need to recognise that the Northern Ireland economy is still in transition – some excellent capability building in recent years, including the development of more R&D activity within SMEs, needs to be nurtured and encouraged.

However the broad definition of innovation used in the Review suggests to us that much of the grant support in the period 2002-2007, although taking the form of SFA, actually met this definition ie "*incorporates product innovation (new or improved goods and services), process innovation (new or significantly improved production or delivery method), marketing innovation (significantly new marketing method) and organisational innovation (new organisational method)*". This is of course open to interpretation eg how do you define 'significantly improved'?

We were disappointed that one area the Review did not touch on is the opportunity to leverage additional value from assistance to existing medium and larger businesses in particular – this could take the form of securing commitments to support smaller businesses in the form of mentoring, training support, technological support, etc which would lead to enhanced capability in local supply chains and in local business communities.

7. Business expansion not involving Innovation and R&D should, where necessary, be supported in the form of co-investment in companies that have already been successful in securing funding from the private sector. Invest NI assistance should be in the form of sub-ordinate debt or equity

Firstly we believe that most business expansions are likely to involve innovation (as defined within the report).

Secondly, in terms of the recommendation we just do not believe this is a realistic proposal, (and indeed the reference to Invest NI assistance via equity appears inconsistent with recommendations later in the report). This approach could simply raise more barriers for SMEs, and is wholly irrelevant to FDI from multinationals.

Thirdly over the next 3-4 years creating employment will remain a key political, economic and social imperative, especially with rapidly rising youth unemployment – we therefore believe it would be inappropriate to introduce such a rigid policy over the next few years. With globalisation taking an even greater hold in recent years, and investment increasingly mobile (including indigenous investment) it is vital that Northern Ireland remains an attractive location for investment.

8. Invest NI should further reduce its support for company training, and concentrate support mainly to small firms and to projects with a high Innovative content, where retraining is necessary to realise a substantial rise in productivity

We are surprised at this recommendation which is inconsistent with Section 9 which recognises that *'up-skilling is an important process that must take place within the entire workforce'* (Para 9.19) while later in the section (Para 9.40) the report recommends that DETI, DEL and Invest NI *'should work to significantly develop management and leadership skills in NI'*.

We believe up-skilling the existing workforce is essential to achieve the necessary transformation into a high productivity, innovation driven economy. Support for company training is likely to be more important rather than less important. We recognise that the necessary support can be provided in different ways, either through assistance from Invest NI or by support via the Department of Employment and Learning and/or via Further Education Colleges and the universities.

Support for training over the period analysed by the Review is estimated at about 8% of total assistance, with a significant element relating to externally owned companies including new FDI.

We believe even greater resources should be focused on up-skilling the existing workforce, including the development of leadership and management skills, particularly in light of the Review's recommendations to move towards a higher value economy¹ driven by innovation and R&D – having the appropriate skills in place is a pre-requisite for success in this area. Northern Ireland companies need to make a massive investment in skills to support advanced

¹ As Sir John Rose, of Rolls Royce recently articulated 'high-value' activity consists of: *"a high research and technology content; a profound understanding of the customer; exploitation of both scientific and experiential intellectual property; the definition of solutions that meet complex requirements; well-developed systems integration skills; managing data to inform responses to complex events; and It is difficult to do well"*. Northern Ireland has considerable investment to make in all these areas.

manufacturing and 'lean' production, six-sigma etc. Without continuing, and we would argue enhanced, support in this area we do not believe the report's aspirations will be achieved.

However we accept the support should be more conditional on demonstrating a focus on delivering higher value outputs and more innovative and or higher productive activities, as well as enhancing R&D capabilities, and increased sales/marketing capabilities (which are essential for driving export growth). The Review does raise genuine concerns about low levels of additionality with regards to the CDP programme which need to be addressed. This programme has of course been replaced with the Business Improvement Training Programme (BITP) which we understand will be subject to a planned evaluation, which we expect will include an assessment of the additionality issue. We also accept that companies themselves have a key responsibility to invest in the training and development of their employees.

While the report focuses on the high level of educational qualifications produced by the NI education system and interprets this as 'an active pool of highly skilled labour within the local economy and externally' many of our members would argue (strongly) that NI does not offer a pool of skilled people, especially with relevant experience, in key areas, particularly those which will be required to develop the economy.

The report also fails to recognise the high percentage of young people emerging with low skills/qualifications which need a lot of support/training once they get into the workforce.

9. Invest NI should transfer its budgets relating to tourism accommodation back to DETI to be redistributed to a more appropriate body

We do not have strong views on this proposal. While it makes sense to some degree, we would want reassurance that an existing body with the appropriate expertise can deliver the necessary 'assessments' in an efficient manner. We would suggest this is not a key focus or major resource requirement on Invest NI – the answer must therefore be who is best placed to undertake such appraisals.

However the Report only focuses on tourism accommodation and makes no reference to other forms of support/assistance to the sector. This is likely to continue (and appears consist with the Report's recommendation to widen the Invest NI client base.

10. A portfolio of new Innovation policies should be developed over time, but should initially include four elements:

a) A new institution for commercially-oriented research should be explored in NI, along the lines pioneered by the successful VTT institute in Finland. The institution should be outside the University system and not subject to the constraints of the Research Excellence Framework (REF). It is envisaged that this would incorporate a number of existing near market research organisations in NI and would be charged with reviewing and taking forward the MATRIX agenda

This needs considerably exploration, including an assessment of recent successful models in the UK and ROI (which are strongly private sector led). The scale and resources within VTT (which has evolved a number of times over its 60 year history – it currently employs over 2300 people) is significantly different, as is the customer base, to what exists in NI. We are not in a position to

comment in more detail on this proposal other than we need to be very conscious of developing institutions which are relevant in terms of scale to the NI economy.

b) Additional research in Universities and public sector bodies should be aligned closely with the needs of industry in NI and potential inward investors to NI. Furthermore, the development of specific new research capabilities should be used as an incentive to attract potential investors

We agree strongly with this recommendation. We support any new Centres of Excellence type activities having a strong private sector lead partner. We note that Report specifically refers to 'additional research' and not existing research. We believe there is a strong case to ensure more of the existing research expenditure is more closely aligned with the needs of the economy and/or has a commercial relevance (which we recognise might extend beyond NI).

c) Industry-led Innovation communities, as suggested in the MATRIX report, should be developed as a pilot to bring together business, academia and Government and exploit available market opportunities

We believe strongly that this is the most important priority to be addressed. The MATRIX recommendations should be taken forward in a prioritised manner with much greater urgency, with appropriate government pump-priming.

Government should continue to support existing market-focused research institutions which have potential to contribute significantly to the development of the Northern Ireland economy.

d) More should be done to support Innovation in service sector firms beyond software, which we believe is well served. The concept of Innovation in the service sector should include the broad range of areas outlined in the definition of Innovation (presented in Chapter 5)

We agree – though it is unclear how this is to be taken forward. Innovation policies need to include transformation approaches to achieve cost reduction and generate additional value.

11. Additional support for Innovation and R&D should not involve new public expenditure but instead be financed from savings in grant support for investment by existing firms and in property development

With the Executive recognising the economy as the top priority within its Programme for Government it is essential that this commitment is reflected in the resources allocated to economic development. With the current economic downturn, and rising employment, this has become even more important, especially as direct grant support remains a relatively small component of overall public expenditure in Northern Ireland.

We believe the Review's recommendations, particularly with regard to the establishment of a new 'innovation institution' will require additional resources.

We also support a higher level of the expenditure being focused on clients, particularly at a time of public expenditure constraint. We would expect that the recommendations regarding governance and more flexibility regarding budget autonomy etc, together with a reduction in programmes and streamlining of processing will also release funding which can be used directly

to support businesses.

We also believe that there is an emerging case that less financial support should be allocated to land/property development which is consistent with the Review's recognition that FDI '*will gravitate towards urban areas*'. While it is clearly vital that sufficient land is zoned for industrial/commercial development across key cities/towns across Northern Ireland it is less clear that the current level of resources should continue to be expended in this area.

12. Invest NI's export assistance should become more dedicated and professional, adopting a similar model to the fee-charging export agencies identified in Chapter 6, with two tiers of charges depending on whether the company is an SME or large firm

We would suggest that all Invest NI staff should be dedicated and professional.

We agree with the recommendation re fee-charging in principle though with Northern Ireland's large dependence on SMEs we need to ensure that fees are kept at a level which shares the risk and provides sufficient incentive to retain and grow participation in trade programmes and other export activity.

We are disappointed that no further recommendations were identified in terms of how to further accelerate the growth of NI exports, especially as this was identified as being of 'critical importance' (para 5.5). NI needs to have a strategic export strategy that inspires and supports business to export by creating the climate and building competence. A number of recommendations have been made by the EDF subgroup on exports earlier this year which we believe merit urgent action.

It should be noted that businesses taking part in most trade programmes already do contribute towards the costs.

13. As soon as practicable, DETI and other relevant departments should commence work on preparing a case for retaining state aid limits that support the changes outlined in this Review

This recommendation has led to much confusion.

We believe it is vital that Northern Ireland succeeds in securing EU state aid approval for retaining some form of SFA post 2013. Without such support NI will find it increasingly difficult to retain and attract mobile investment (and most investment is becoming increasingly mobile). However part of this approach should also be focused on ensuring Invest NI can provide appropriate support to encourage higher levels of innovation and R&D. Developing a stronger R&D focused economy and higher levels of innovation and productivity will take several years to develop – within this period NI, and until NI can offer competitive advantage in its cost base, skills base, and its capability to respond quickly to market opportunities, we believe Invest NI will need every support mechanism at its disposal to develop and strengthen the economy.

The specific recommendation is a little ambiguous – if it is focused at supporting the 'changes outlined in this Review' eg doing away totally with SFA but focusing on support for innovation and R&D, we have deep concerns, as expressed elsewhere (particularly as this could limit the ability of Invest NI to provide a competitive, and compelling, assistance package to attract and

retain high value projects.

Negotiations on EU State Aid rules post 2013 have not started – though we believe the process will get under way in mid 2010. It is essential that the Executive develops a strong case to retain some element of SFA and develops an effective strategy to influence the UK government and EU institutions over the next two years.

14. Promoting greater energy efficiency / conservation in the private sector should be accorded a higher priority in the 2009 Strategic Energy Framework (reflecting, where appropriate, the current and ongoing work of the Green New Deal for NI)

While the Review acknowledges Northern Ireland's higher energy costs the scale and impact of the price differential with GB and other key countries, notably the USA, does not appear to be fully appreciated – we would certainly not be as optimistic as the Review Panel are that the differential in prices is reducing and may diminish further – certainly evidence in the last few months refutes this.

We do however agree with this recommendation. With energy costs likely to rise sharply in the medium/longer term it is essential that energy efficiency/conservation becomes a top priority. Government should review the £70m currently spent in this year to ensure they are maximising their leverage and outcomes. We would strongly support the Executive introducing a rating discount for companies achieving the Carbon Trust Standard.

We also recognise that the renewables industry in Northern Ireland offers considerable scope for growth and innovation.

15. DETI and Invest NI should undertake an immediate and focused review of its overall strategic and sectoral approach to capitalise on the benefits of new telecommunications connectivity in NI

This seems sensible, especially in light of the completion of Project Kelvin. However it is essential that such a review seeks to capitalise on all Northern Ireland's existing telecoms connectivity, and not just the 'new' element.

16. DETI, as the funding department, should report on the strategic performance of Invest NI, with the co-operation of Invest NI statistical staff

There is a very mixed view in the business community on this recommendation, partly perhaps there is a worry that we will be creating a large bureaucracy, while others have suggested giving this responsibility to a body wholly independent of both Invest NI and DETI might be a more sensible approach.

It will be important to avoid creating systems which will choke things up, but clearly we recognise the importance of effective evaluation of policies. We do believe that there should be a greater focus on longer term performance measures. There does need to be a new way of evaluating performance based on agreed key performance measures, related to desired outcomes - there will be merit in involving the NI Audit Office in developing the appropriate performance management approach.

Para 3.36 states that '*No organisation should have primary responsibility for reporting on its own*

performance – this is a most unusual statement, which we fail to understand. We would expect good governance in any organisation to include an assessment of performance against goals and objectives set.

17. Relevant policies and accompanying resources should be updated annually to quantifiably demonstrate how individual policies/organisations contribute to the PfG productivity goal

This is sensible, again providing it does not add unnecessary bureaucracy. Collation and monitoring of data should be kept relatively straightforward.

18. Wherever data availability / quality allows, ‘impact’ targets for economic development should be expressed in relative terms (to the UK average or appropriate subsection of UK regions) rather than in absolute terms

We agree, although this might need some care in presentation if all targets are expressed as a small percentage of a UK target. It would be preferable to include relative as well as absolute measures.

19. When reporting on performance, DETI / Invest NI should include targets specifically for investments new to NI (expressed as a share of equivalent jobs coming into the UK).

We agree – this would provide additional transparency, and should include costs per job.

20. The Invest NI data collection system needs to be developed as a single database, to be maintained by DETI. The IREP database, constructed specifically for the Review, will be transferred to DETI to help facilitate this process

This seems sensible – maintaining and developing the evidence base is critical for the development of policy.

21. Aside from those funds designed to support seed stage projects, Invest NI should disengage its direct involvement with venture capital (VC) funds. Rather than direct participation in the market, Invest NI should act as a facilitator between companies and VCs. In the case of seed stage VC funds, Invest NI should avoid placing restrictions on the market as outlined in Chapter 3.

There is some confusion in Section 3 and perhaps some misunderstanding of the market and what is required.

Firstly with regard to **seed capital** we believe Invest NI has a critical ongoing role to support, including providing funding towards, seed capital funds (which by their very nature are high risk). This is critical if we are to develop more technology led investments – the IntertradeIreland study referred to in the Review supports this conclusion. In terms of restrictions we believe it is sensible for more flexibility and fewer restrictions on Invest NI supported funds.

Secondly we believe it will be difficult for existing or new VC funds, particularly those focusing on **early stage investments**, to raise new money without some support/contribution from Invest NI. We therefore disagree with the Review’s recommendations in this area. We believe it will be important for Invest NI to continue to participate in early stage VC funds, as well as seed capital,

as is the case in other Regional Development agencies in the UK.

Thirdly Northern Ireland will need more access to **private equity** – especially over the next 4-5 years as credit will be both more expensive and more difficult to secure while SFA limits are declining. A more active private equity market will be an essential ingredient of developing a more innovative, growth orientated economy. Invest NI has a key role to play in seeking to encourage local financial institutions (banks, pensions funds, insurance companies) as well as external private equity to invest in NI funds. We believe there is a shortage of private equity funding available compared with other regions of the UK. These funds will be necessary to assist with MBOs, MBIs, mergers and acquisitions, and to help fund spin-outs which may emerge from public sector reforms.

Most other regions have access to local government pension funds which play a key part in regional private equity funding – we welcomed NILGOSC’s contribution to some of the local VC funds but understand that these funds are underwritten by Invest NI. They have not invested in private equity funds in Northern Ireland, providing some indication that the market is not working. At the same time we do need to stimulate increased demand for such funding, though credit constraints in the future are likely to make this a more necessary source of funding.

22. Project appraisal rules should be re-assessed to ensure that projects involving investment in Innovation and R&D, which generally present uncertain and wider outcomes, are not placed at an unreasonable disadvantage

We agree strongly with this proposal.

In addition to appraisal rules, it is essential that for SMEs application and appraisal procedures are simplified and less ‘heavy-handed’ with a greater focus on outcomes, rather than process.

23. A study should be undertaken to determine how NI can more rapidly shift the pattern of inward investment towards higher value sectors

This seems sensible, though we recommend that this is a short and succinct review.

24. A study of industrial land provision should be commissioned to determine why there is a perceived need for Invest NI to purchase large amounts of land over the next few years

We support this proposal – as highlighted above we believe Invest NI should be spending a smaller proportion of their funding on land/property in the future.

25. DETI and other relevant departments should undertake a study to establish how the social economy might be further helped to reduce deprivation and increase labour force participation in disadvantaged areas within NI

We agree with this proposal – however it may be best undertaken in association with Local Councils, perhaps under the umbrella of their new ‘Community Planning’ responsibilities. Lessons should be learnt from successful GB experiences.

26. If Northern Ireland is to achieve a step change in economic performance, the economy should remain the top priority of the Executive for many years to come

We strongly endorse this proposal – the report provides strong evidence to support this recommendation. With the current economic downturn the strong rhetoric of the Executive needs to be demonstrated by turning priorities into actions and eventual outcomes. It is essential that the Executive clearly demonstrates its determination to maintain the economy as the No 1 priority and to ensure sufficient resources are allocated to meet the goals set in the Programme for Government.

27. DETI, DEL and Invest NI should work together to more effectively implement their existing liaison arrangements

We agree strongly with this proposal. We do believe there has been an encouraging improvement in liaison between these bodies in the course of the last few years – this needs to be built on and developed further at all levels as an interim measure to the proposed merger of the two Departments. This will require greater integration of work processes which support businesses across all the agencies supported by DEL and DETI.

28. As part of the review of strand one institutions, the core economic functions (covering existing DETI and DEL areas of responsibility) should be brought together under a single ‘Department of the Economy’

We agree with this proposal, though we suggest parts of other Departments may also need to be included.

However it is likely that this will be assessed as part of the review committed to in the Programme for Government (Pg 18 ‘Review the overall number of Government departments by 2011’) and will take some time to come to fruition. The Business Alliance is strongly supportive of the need to reduce the number of Departments and improve synergies, reduce duplication, simplify interfaces, and streamline administration. The proposed merger between DEL and DETI makes a great deal of sense.

29. The FM /dFM and the Executive should establish a permanent sub-committee to prioritise action on the economy, to be chaired by the Minister for the Economy (in the interim, the Enterprise, Trade and Investment (ETI) Minister)

We agree strongly with this proposal – this would enhance the Executive’s existing commitment to putting the economy at the centre of its Programme for Government. The Committee should operate with ‘actionable minutes’.

30. The Executive sub-committee should agree an economic strategy, building on the findings of the IREP, as a matter of urgency

We agree strongly with the recommendation regarding the development of an economic strategy. A draft (and deficient) economic strategy was developing during Direct Rule in 2006, yet three years on and we still do not have an appropriate strategy in place. Key elements of the IREP should be drawn on, but as we have highlighted there are certain weaknesses, and risks, with certain recommendations.

31. DETI should undertake an internal review of its structures to ensure that the allocation of staff is more fully aligned with its policy objectives

This seems a sensible proposal.

32. The core functions of strategic policy development and performance monitoring should be brought together within any revised DETI structures. The department should also provide the necessary support, professional and otherwise, to the Executive sub-committee on the economy

This seems a sensible proposal. Some consideration should be given to involving expertise from outside government in this work.

33. Invest NI should consider an internal reorganisation that reflects the differing skill sets required to support FDI, exports, Innovation / R&D and small business support

This seems a sensible proposal, and should be completed within 12 months. We also believe greater effort is required to increase the number of 'client-facing' staff.

34. A small business unit should be created within Invest NI, with responsibility for the development and co-ordination of relevant support to SMEs throughout NI

This has caused considerable debate and discussion, and indeed should form part of the organisational review recommended in the previous recommendation.

We believe this needs further consideration, particularly in light of the Review of Public Administration, and the transfer of responsibilities for enterprise/ business start-ups etc to 11 local authorities. The Review suggests two primary functions for this group, namely, supply chain development for SMEs with multinationals, and co-ordinating small business development activity of local councils – two very different roles. With the former we believe this should be a core policy across Invest NI to encourage/facilitate the deepening and development of supply chains within NI – we are not convinced a separate unit will achieve the required outcomes.

With regards co-ordination with local councils we do accept the need for some form of unit to help co-ordinate activity and as a means of ensuring that where appropriate fast-tracking processes are in play to support fast growing companies, with export potential and/or new companies which can form key parts of MNC supply chains.

Small and micro companies need to have 'light-weight', simple, and responsive processes with single points of contact. Many companies in this category need to be encouraged to '*lift the phone*' and establish an appropriate contact that can add value to their business. Many just need access and signposting to mentoring or advice, rather than financial support. This is certainly not an area where '*one size fits all*' will work. Local councils should be encouraged to adopt innovative approaches in engaging with small companies, and in facilitating their growth ambitions.

We also agree that there is some merit in 'scaling down' the regional network of Invest NI, although this is somewhat inconsistent with the recommendation to widen the Invest NI 'client base' – small companies in particular place particular value on a local presence. However this

might partially be addressed by moving to shared facilities with the new local councils.

35. World class training in sales and marketing should be provided for relevant Invest NI staff (particularly those working in international offices). In addition, staff should be recruited with relevant experience to meet the demands of investment decisions that are increasingly based on Innovation and R&D

We strongly support this recommendation. We do not believe career civil servants who have no business experience, can provide the relevant skills required. Recruitment should require these skills. We would strongly support the increased use of secondments between Invest NI and industry (both ways).

A more general point is worth emphasising – there is a need to re-orientate the civil service to focus more closely on wealth creation. Performance measures should be developed to include ensuring that there is increased link with wealth creation and a more commercial outlook.

36. Invest NI should be allowed more freedom to operate, with DETI having less involvement in operational matters, to enable the organisation to be more entrepreneurial and responsive to business needs

We strongly support this recommendation – indeed this is critical if we are to move to a more outcome focused and effective organisation.

37. To help achieve greater autonomy for Invest NI, their delegated authority limits should be both simplified and increased significantly. The current DFP delegated limits for mobile SFA (currently £10m) should also apply to Innovation and R&D projects

We strongly support this recommendation. In addition to reducing bureaucracy and delays this should release administration resources within Invest NI, DETI and DFP to be used for more productive purposes.

38. An NI version of the Central Project Review Group (CPRG) should be established, incorporating Invest NI, DETI and DFP, in order to speed up the decision making process for major industrial assistance cases

This is an essential requirement – the group will only work if it meets regularly.

39. Given the non-executive composition of the Invest NI Board, it should cease to perform executive functions and focus on providing strategic direction and oversight

This would appear to have merit but does need some consideration with regards to accountability issues. We have an open mind on the proposal – though on larger projects we would have suggested that Non-Executive Board members could bring additional challenge/checks/balances perspective to the appraisal process.

40. A senior member of the DETI Departmental Board should be represented on the Invest NI Board

There is general support for this recommendation though some criticisms have been raised, as highlighted in the Review this goes against good corporate governance – the Review refers to

clear merits of this approach but does not specify them. We note that the IDA has the Assistant Secretary of the Department of Enterprise represented on the IDA Board. Perhaps having observer status only could overcome potential conflicts of interest.

41. High level experience in international business and expertise in economic development should be sought when the Invest NI board is reconstituted

This seems sensible, though as with any Board, the members should bring a range of experiences/expertise (including small business experience). What is absolutely essential is that Invest NI Board gets the best people available. We believe it is essential that the Board should continue to have representation which includes senior business figures with a good knowledge and experience of the NI economy, as well as those with international expertise.

42. Invest NI should be given greater autonomy and flexibility in managing its budgets, including End Year Flexibility (EYF) where required

We strongly support this recommendation.

43. For projects involving financial assistance to industry, ex-post assessments of value for money should be taken on a portfolio basis The DETI / Invest NI Accounting Officer Memorandum should be reviewed in light of the revised governance arrangements implemented as part of the IREP

We strongly support this recommendation

44. The Management Statement and Financial Memorandum (MSFM) should be reviewed and revised, where appropriate, in light of the recommendations contained in this report

This seems sensible.

45. The ETI Minister should stand down the Economic Development Forum and establish a small advisory body, comprising expertise on regional economic development (drawn from business and economics) to provide independent advice on the economy

We accept the need for a smaller more focused advisory body as recommended. Strict time limits should be set for how long individuals can serve in order to secure a regular flow of new ideas. The EDF has played a valuable role, particularly through the work of it's subgroups.

46. Stakeholders involved in economic development should continue to engage with the ETI Minister on a bilateral basis

We agree that it is important that the Minister continues to engage regularly on a bi-lateral basis with key stakeholders.

47. The local education system should prepare now to meet the anticipated increased demand for higher level skills in STEM and other Innovation relevant subjects arising from the increased prioritisation of Innovation and R&D

We strongly support this recommendation – a shortage of appropriately qualified people in STEM subjects could limit the potential of the development of an innovative, high value economy. In addition work needs to be done to promote the opportunities offered by careers in

engineering, manufacturing and science in order to increase the supply of STEM qualified people.

48. The current focus on technical and professional qualifications, including apprenticeships and vocational training, should be extended to emphasise higher level qualifications at levels 4 and 5

We support this recommendation, though would emphasise that this should not distract from the need to maintain current efforts to promote apprenticeships and vocational training.

49. DEL, DETI and Invest NI should work to significantly develop management and leadership skills in NI and support the proposal for government to sponsor a 'Management Masterclass' to identify and develop the best managers from local industry and the public sector

We strongly support the recommendation to development management and leadership skills in NI. We believe a range of high quality Leadership and Management support programmes will be necessary, including promoting access to international programmes. Programmes need to be designed to meet the needs of different sized companies at different stages of development. 'Talent acceleration' has to be a core part of future economic development policies.

50. The Executive should ensure that the third ISNI plan takes a much greater economic focus by committing more investment into projects that will maximise NI's future economic performance

We strongly support this recommendation – particularly as we move to a situation of major constraint within public expenditure

51. In the context of reform, the Planning Service should be given processing time targets which are comparable and competitive with those countries and regions against which NI is competing for mobile international investment

We strongly support this recommendation.

52. Planning Service should work to ensure that the legislative timetable for reform is met

We strongly agree with this recommendation– it is vital that planning reform proposals are taken forward with urgency, and appropriate transition mechanisms, structures and plans are put in place to ensure there is no slippage in the delivery of improved service.

53. The Strategic Projects Team should deal with all applications relating to investment new to NI. In addition, in terms of what constitutes a 'regionally significant development', a clear definition and qualifying criteria should be developed and agreed between DoE, DRD, DETI and Invest NI

This is agreed in principle – though it is open to some ambiguity – 'investment new to NI' could be a relatively small investment where it may not be appropriate for the SPT to be involved. It is critical that there remains an ability to focus on selected high value projects.

54. Pre-Application Discussion (PAD) process must be as efficient as possible and the time allocated for PAD should be included when reporting on timings for all applications

We agree that this should be recorded as a separate issue. The current 'six month rule' with regards to Planning Service reaching a decision on receipt of an application once the PAD is completed should remain a key focus. PADs is an engagement between a number of parties and the developer – and the responsibility for meeting timelines will also reflect the developers commitment to providing appropriate information. We do not wish to see the focus on the 'six month commitment' to arrive at a decision once the application is completed lost.

Annex1 Productivity Issues

- Labour productivity is usually defined as "the ratio of a volume measure of output to a volume measure of input" and can be measured in physical or price terms. The report measures it as GVA (wages and profits as the output) per employee (the input). A broader, more complete measure of inputs would take account of hours worked, workforce jobs and the number of people in employment. Measured labour productivity will be a function of labour input and the efficiency with which the factors of production are used ie could it be that part of the explanation for NI's productivity gap is a "deficit" in the use of technology versus other regions or a higher ratio of part-time working (perhaps associated with the expansion in female participation in the workforce in the last decade).
- Measuring Productivity for a firm or a process is much easier than for an economy or region
- The conclusions reached in Chapter 4 with regards to trends in Manufacturing productivity appear inconsistent with the data from the NI Index of Production produced by DETI - this measures productivity in terms of the number of units of output produced each man hour and indicates a steady rise between 2005 until Q4 2008 when the manufacturing recession commenced. Furthermore, this measure would not support the conclusion that NI has been underperforming the UK over the period. Indeed prior to January 2008 productivity was not a key goal of the government in Northern Ireland
- The analysis is pre-recession and up to 2006/07. A more updated assessment would be recommended in light of the much changed environment and what is certain to be quite a dramatic decline in productivity across sectors and for comparisons with the UK. eg from its peak in Q2 2007, the drop in output in NI Business and Financial Services has been c 30% !! but the reduction in employment in this sector has been much less
- Table 2.2, p27 suggests that productivity in NI is above the UK average in two sectors - Utilities and Public Administration. With regard to Utilities, it is certainly debatable whether energy, gas and water etc are 20% above the UK average given scale etc - could it be that this largely reflects wage levels of monopolistic providers. With regards to the latter, it is notoriously difficult to measure productivity/output of the public sector. Assessing output in terms of GVA when pay levels are largely determined at a UK national level is problematic. The report does suggest that productivity in Health in NI is below the UK average which would be consistent with the findings of Prof John Appleby in his review in 2005.

- The NI private sector "productivity gap" with the rest of the UK (excluding the Greater South East with its higher value Business and Financial Services) is actually relatively small at less than 6% (p17) and can be largely explained by economic structure and higher inactivity ie agriculture, construction and retail are lower value sectors in just about every region/economy - it is just that their "weighting" is proportionately higher in NI and we lack critical mass in tradeable services to counterbalance. With the financial services sector (banks, insurance etc) head-officed elsewhere, this will remain a challenge.

Business Alliance

16 November 2009

BA 01 09