



Department of

**Enterprise, Trade
and Investment**

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The Future of Private Services in Northern Ireland

Policy Response

Department of Enterprise,
Trade and Investment

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Introduction

1

Commissioned in the context of the 2002-2005 DETI Corporate Plan the assessment of the **role of private services in Northern Ireland** over the next 10 years sought to identify/forecast where future expansion/development will occur, and where growth opportunities might exist in the sector.

Within this overall aim for the research four sub-objectives were identified, viz:

- **comparison** of private services development in NI with that in the rest of the UK (and if possible other EU economies and the US) including contribution to the economy in terms of output, employment and Gross Value Added (GVA), and productivity;
- identification of **sub-sectors** currently under-developed in NI;
- projection of **future trends** for private services in Northern Ireland, including 2013 forecasts for employment, output, GVA and productivity; and
- assessment of **future implications** for the NI economy as a whole in terms of job quality and income levels.

The research was undertaken by (the former) Northern Ireland Economic Research Council (NIERC) and Regional Forecasts Ltd (RFL), and has been used to refine current DETI/Invest NI policy towards the sector. The research has also given rise to a number of new policy recommendations in this area, and these are considered further in the context of this policy response.

Outcome of Research

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In summary, the NIERC/RFL research has revealed the following:

- **Comparison of Private Services development in NI vis a vis other regions**

Private services **remain greatly under-represented** in the NI economy (40% of full-time equivalent employment compared with 53% in GB and 34% GVA in NI compared with 47% in GB).

- **Sub-sectors currently under-developed in NI**

The **largest degree of under-representation** in a single major sector is in **Financial and Business Services sector**; NI has only half as many employees in this sector as the average for GB. NI is not, however, unique in this context, as a number of other regions with low GVA per capita also have small private services sectors.

- **Projection of Future Trends**

The overall forecast is for **54,000** additional jobs to be created by 2013 in private services in NI, which is expected to account for most of the total of additional jobs in NI over the period. A

significant proportion of these will be in the financial and business services sector.

Notwithstanding this growth, NI **will still be significantly under-represented** in these activities in 10 years' time.

- **Future Implications for the NI Economy**

The research concludes that there is **considerable scope** for NI to **develop larger specialisms in some of the private services sub-sectors**, but that this will be **difficult** and will require **Government intervention**. A number of policy recommendations have been put forward which are considered in further detail below.

Policy Response

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The structure of the Northern Ireland economy is changing with increased importance of the tradeable services sector in creating employment and wealth in the economy. Over the past 20 years manufacturing employment has declined by about 10%, whilst the employment contribution of the services sector has increased by about 45% over the same period. This reversal of the fortunes of the two sectors is even more noticeable in recent years. The services sector's share of Gross Value Added (GVA) has risen from almost 49% in 1998 to 56% in 2003, whilst that of the manufacturing sector has declined from 37% to 29% over the same period. In the past year alone around 15,000 jobs have been created in the Northern Ireland private services sector reflecting the strength of the sector locally.

The increased importance of the service sector has resulted in a greater desire for knowledge regarding the sector, and whilst comprehensive figures are available on the level of exports within the manufacturing sector, until recently no comparable information existed for the service sector.

However, a DETI pilot **international trade in services (ITIS) survey** (published alongside this policy response) has for the first time estimated the export contribution of those service sectors identified as having the greatest potential to trade in services internationally – computer and related activities, R&D, market research, business management and consultancy, architectural and engineering, technical testing and analysis, advertising and creative entertainment. Results from this experimental survey estimate that in 2003 the high export potential group exported services valued at just over £126m, with the computer industry accounting for approximately two-thirds of the total services exported.

The figure of £126m indicates a relatively modest export performance by this high export potential group compared to other UK regions. However, its real importance lies in the fact that it provides, for the first time, an independent base against which progress can be measured and ambitious targets set, moving forward. Exports in these sectors will continue to be measured on an annual basis, and

the value of exports measured for 2003 (£126.4 million) will act as a **benchmark** for future surveys, and will increasingly help us to identify growth and emerging areas within the service sector.

With regard to the recommendations of the NIERC/RFL report, Invest NI is responding positively through an increased focus on the emerging opportunities identified in the report. Invest NI has already assigned a **Professional Services Unit** to investigate in greater depth those recommendations directed towards them, and to develop a strategy and implementation plan for taking these forward. The Unit has completed an initial review of service sub-sectors which appear to offer potential for growth, eg construction services, healthcare and IT services. More comprehensive research and review of the services sector is scheduled for completion by end January 2006, with the development of appropriate strategies and associated Operating Plan targets profiled for the beginning of the 2006/07 financial year.

The importance of the tradeable services sector has also been reflected in **Invest NI's overseas trade activities**. For example, 31% of the companies participating in the 11 multi sector trade missions undertaken in 2004/05 were categorised as tradeable services. In addition, in recent months two tradeable services missions have visited the US to exploit opportunities in homeland security and financial services. Eight of the 19 companies participating in the last trade mission to India in October 2005 were selling services, and about a third of those involved in the November 2005 trade mission to China were services sector companies.

Furthermore, the benefits arising from these trade missions are tangible with a number of tradeable services companies having reported significant new business arising from their participation. Recent successes include Mivan (£7m in the Middle East and SE Asia), Rotary International (£5.5m in the Middle East), Helm Corporation (£1.8m in Czech Republic), Meridio (£1m in US) and Lowe Refridgeration (£1.7m in Singapore).

Tradeable services companies are also significant users of Invest NI's in-market support services, especially the NI Technology Centres in Dubai (Fayrefield Foods, Mivan, Sugarcube, Abbey Training) and Boston (Texthelp, Avalon, Arca). An evaluation will be conducted into the impact of the Boston Technology Centre next April.

The **SME sector** is the key engine of private service sector growth, and following major successes in securing **foreign direct investment (FDI)** in the Network Services, ICT and Software sectors, Invest NI will seek ways to encourage the development of our SME service sector to enable it to support FDI successes. In addition, following the success of **'Go For It'** as part of the **Accelerating Entrepreneurship Strategy**, there will be a continuing focus on improving the awareness of entrepreneurship in our universities and further education colleges. 'Go For It' has helped to change attitudes to entrepreneurship right across our population, and Invest NI is continuing to work with DETI in developing new products for Global and Export starts in the services sector.

Tourism is also a tradeable services sector. The contribution which tourism makes to NI's export activity is not, at present, robustly calculated. Work is, however, in hand through a review of NI Tourism statistics, and a review of the economic impact of tourism, to more accurately quantify the contribution of the tourism sector to overall economic activity.

Finally, in keeping with the Economic Vision's commitment to ensure that our people have the right skills for future employment opportunities, the Department for Employment and Learning (DEL) and DETI will seek to replicate a successful model pioneered in North Carolina, USA, which sought to use the education system to help the economy cope with structural movements initially from agriculture to manufacturing, and more recently from traditional manufacturing to higher tech areas. This work, which is in its initial stages, will investigate, amongst other things, how we can switch the interest of young people from pursuing careers in the more traditional professions to careers in the tradeable services sectors, thus repositioning our global economic position via a strategic transformation in our skills base.

In summary, DETI/Invest NI recognise the changing structure of the NI economy with the increased importance of the tradeable services sector in creating employment and wealth. This creates a significant opportunity to re-focus resources in economic development policy to accelerate the exploitation of this opportunity. DETI/Invest NI is responding to this opportunity through an increased focus on targeting specific sub-sectors and programmes on tradeable services companies both at an individual level and through trade and industry bodies. Invest NI trade programmes, in particular, will have specific targets and events aimed at increasing the level of exports from the services sector. The initial results from the DETI experimental ITIS survey will create a benchmark against which progress can be measured and ambitious targets set.

Response to Specific Recommendations

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Recommendations 1 and 4

Government should promote privatisation of appropriate organisations still in the public sector, and identify those public services which could be devolved to local companies with ability and ambition to export these services.

Response

The Government is committed to public services that deliver best value for money in terms of output and quality for those who use them. However, public expenditure on its own may not deliver all that is required in this area, and there may well be scope to look at alternative methods of delivery. An example of this is the creation of a self-financing public sector GoCo for the Water Service. We will also look at areas where public/private partnerships in capital projects can help lever in private finance to Government projects. Without undermining its over-arching determination to deliver world class public services in Northern Ireland, the Government will continue to explore how the private sector can be most effectively engaged for this purpose.

Recommendation 2

An audit of large companies in Northern Ireland to establish:

- the nature and extent of demand for financial and business services; and
- the potential for local companies to replace external suppliers of sophisticated services.

Response

NI has few local Plcs, and many of those externally-owned large companies located here have limited control over purchasing policies. Most multi-nationals have their own legal and accountancy teams, and even where they do buy in such services this is generally managed through a central purchasing team which could well be located elsewhere. The potential for achieving a significant increase in local sourcing of such services may therefore be limited in the short term.

Having said that, there are positive examples of activity to develop and enhance service provision from within Northern Ireland. For example,

- the Coolkeeragh Supplier Model which was based on the development of the gas fired 400 MW power station at Coolkeeragh. This provided the opportunity for local service providers to gain

business from the Coolkeeragh development and has proved to be successful;

- the local Chambers of Commerce have been organising and hosting “meet the buyer” events based on large companies/organisations with the objective of promoting more local suppliers in general services etc;
- the recently created “Healthcare Informatics Cluster”, an initiative driven by the Centre for Competitiveness targeting new IT contracts within the NHS in GB, has the remit to develop opportunities for Northern Ireland companies to tender for and gain business in the field of healthcare development within the UK; and
- Business Improvement Services within Invest NI are continually developing client companies in their capability and capacity to be suppliers to larger organisations, both in and out of Northern Ireland, and this is being achieved by individual companies and by group and cluster developments.

Recommendation 3

[Work with sub-sectors within financial and business services to identify potential markets in GB and the ROI, including identification of advantages in cost and service quality.](#)

Response

Invest NI is already targeting some activities specifically at this group of companies. For example, the New York Trade Mission (June 2005) was focused entirely on local businesses offering financial services and software and IT solutions; 75% of participants came from the service sector.

Invest NI's New York office also offers “hot desking” facilities targeted primarily at NI service sector companies wishing to explore opportunities in the financial district within which it is located.

In addition, Invest NI's Business Information Centre is open to all (manufacturing and service) companies wishing to research opportunities in external markets. During 2004/05 the Centre handled 10,500 enquiries, 35% of which are estimated to have emanated from the local service sector. More intensive methods of support such as Export Capability Workshops and Trade Missions are also increasingly accessed by local service companies, with a significant number of users deriving from the “other” business services sector.

Invest NI's programme of trade events for 2006, will be promoted to all sectors and businesses with the capability to trade their products and services outside of Northern Ireland. While all events will be open to tradeable services, some ten market visits will be specifically targeted at the sector including events in the Republic of Ireland, Germany, Spain, the Gulf States and USA for where the focus will be on promoting environmental, financial, IT and training services. In addition, Invest NI's Technology and Development Centres located in Boston, Denver and Dubai are resourced to provide support and advice to companies offering knowledge-based business services in the US and Middle East markets.

Invest NI will continue to explore the export potential for local service companies. For example, it will strengthen FDI service sector capability to help increase the potential for outsourcing to local suppliers. In this context, there have been a number of cases where potential FDI service projects have been translated into joint ventures with existing indigenous suppliers, considerably expanding their export activity. Examples of vendor agreements and contracts secured for indigenous suppliers include B&Q/HCL, BPO NI Ltd, Expedia/GEM and Blue Star/Finisco. Intelligence from Invest NI engagement with key players in the financial and services sectors overseas points to further potential opportunities for NI companies in terms of outsourced projects, and Invest NI will proactively follow these up.

Recommendation 5

[Government Purchasing Agency \(GPA\) to revise its own and other regulatory frameworks to make it easier for small businesses to win Government contracts.](#)

Response

The Central Procurement Directorate (CPD), which combines the former Government Purchasing Agency and Construction Service, is conscious of the impact of its regulatory frameworks on SMEs. To this end it has already reduced the duration of two major tendering processes, relating to the engagement of management consultants and information systems, e-business and related services, from 3 years to 18 months, which should benefit SMEs, and has also agreed that where public sector bodies embark on a rationalisation of the supply base any actions taken should take

account of the likely impact on SMEs. CPD has also produced a guide for SMEs which provides information on accessing and competing for public sector business, and a companion guide for practitioners which provides advice on removing the barriers that SMEs encounter.

Recommendation 6

[Lobby for relaxation of EU State Aid rules to ensure that service sector firms are not disadvantaged in terms of assistance per job.](#)

Response

EU State Aid rules afford flexibility in the level of regional aid available to capital and labour intensive projects in Northern Ireland. The rules allow for more aid per employee to be given to highly capital intensive projects, eg pharmaceutical projects, while at the same time offer higher capital aid intensity levels for highly labour intensive projects, eg call centres. Either method can be chosen, depending on the characteristics of the project under consideration. New regional aid guidelines are expected to be introduced as from January 2007, but no change is anticipated in the principle that investment aid can be offered either on a per employee basis or as a percentage of capital investment.

Recommendation 7

Clarify eligibility for Invest NI assistance to service sector companies.

Response

A substantial review of the existing Invest NI client bank has been completed and a clear definition developed to clarify the profile of an Invest NI client. This definition is presented below and will clarify eligibility for Invest NI assistance to all companies.

A business should be able to demonstrate that currently, or over the next three years, it will have:

- a) Total sales of over £100,000 per annum; and
- b) External sales (ie outside of Northern Ireland) greater than 25% of turnover of greater than £250,000 per annum.

An "Enterprise Portal" will constitute the central point of contact for **all** local SMEs looking for business information online. This will provide general business information and details of schemes available locally, including that to service companies. A pilot of the Portal – "NI Business Info" was showcased at the Enterprise Show, on 19 and 20 November, with the completed Portal scheduled for completion mid 2006.

Recommendation 8

Establish Invest NI Professional Services Unit

Response

Invest NI has already assigned a **Professional Services Unit**, operating within the Engineering and Business Services Unit, to investigate the potential opportunities arising from a number of the NIERC/RFL research recommendations. The report acknowledges that many of the policy

recommendations require further targeted research to evaluate their potential effectiveness and to guide implementation. The task of the new Unit will be to explore in greater depth those recommendations directed towards Invest NI, and to develop a strategy and implementation plan for taking these forward. The Unit has completed an initial review of service sub-sectors and 25 have been identified which appear to offer potential for development and growth. As a trial, 6 of these sub-sectors will be selected for further research and development, and while these sectors are not as yet finalised, construction services, healthcare and IT services are likely to be included. The research and review of the services sector is scheduled for completion by end January 2006, with the development of appropriate strategies, targets and implementation profiled for April 2006.

Recommendations 9 and 10

An Invest NI Assistance Programme for Tradeable Services, viz

- a programme specifically targeted at companies providing "services" rather than "service products" (cf software); and
- an audit of existing NI programmes to examine the possibility of making them more accessible to tradeable services providers.

Response

Invest NI will investigate the possibilities for such a dedicated programme as part of the work of the Professional Services Unit referred to above. In the course of this investigation it will take account of research on whether assistance programmes of this nature are operated within other EU Member States, as any new schemes in this area are likely to require EU state aid approvals.

Recommendation 11

A scheme to induce potential entrepreneurs with relevant experience to return to Northern Ireland.

Response

Invest NI has identified this as a priority action within the context of a review of the Global Start Strategy. This will involve assessing the potential to use existing networks such as

- Queens Alumni;
- UU Alumni;
- NI Bureau;
- FCO/UKTI;
- Brits-on-the-street (NYC, financial services)
- Bio-link; and
- Other sectoral initiatives.

Within the next 6 months a review will take place of such initiatives currently being operated by other development agencies such as Scottish Enterprise, Enterprise Ireland and the English Regional Development Agencies (RDAs).

Recommendation 12

Establish a Specialised Invest NI e-Commerce Unit

Response

Invest NI's e-business service currently provides a range of advice and support, including e-commerce and its potential benefits. This is currently available for all Invest NI clients, including service sector companies, and is actively promoted through best practice case studies.

Recommendation 13

Support for R&D in Professional and Creative Services

Response

DETI/Invest NI recognises that professional and creative service firms should be supported in their efforts to adopt a more innovative approach to business. An example of this is the significant support provided by Invest NI to the Northern Ireland Film and Television Commission (NIFTC) to assist the indigenous film and TV sector. The NIFTC supports the development of innovative management skills through its Business Development Programme and the development of new programme/film proposals through its Product Development Fund. In recognising that such industries may have specific difficulties in accessing more typical forms of funding targeted at promoting engagement with R&D, programmes continue to be developed which support the wider range of innovation needs in the business community. These include: advice services on the use and uptake of ICT, broadband and related technologies as business tools; supporting the development of innovative new products and processes by SMEs; assisting companies to become involved in knowledge-clusters and enhancing supply chain awareness; encouraging companies to become more engaged with knowledge transfer activities from other firms and the HE/FE institutions; and promoting all aspects of design as a critical business tool. Further recommendations arising for improving support to knowledge-based businesses in general will be adapted as appropriate to support the professional and creative services sector.



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