

Response to Independent Review of Economic Policy (DETI / Invest NI)

Jacqui Rose
Department of Enterprise, Trade and Investment
Strategic Planning, Economics and Statistics Division
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

13th, November, 2009

Dear Jacqui

Digital Circle is the leadership group for the Digital Content sector in Northern Ireland. At present, our network consists of over 160 Digital Content companies spread throughout the province. The Digital Circle is funded for a 3 year period (ending April 2011) by InvestNI and was chartered through the Digital Content Strategy, published by InvestNI in January 2008. It is directed by the Digital Content Steering Group and has one full time employee, hosted by Momentum, the ICT and Software Federation for Northern Ireland.

The Digital Content Steering Group consists of five elected representatives from the Digital Content sector and as such represents the interests of the digital creative sector. Digital Circle, as a sector lead for Digital Content in the province is grateful for the opportunity to contribute to the Independent Review of Economic Policy and future government policy for economic development in Northern Ireland.

The comments below are based on our understanding of the subjects covered by IREP which are particularly relevant to the Digital Content Sector in Northern Ireland.

Yours faithfully,

Matt Johnston, Facilitator for Digital Circle

pp
Davy Sims, Digital Circle Steering Group Chair
Martin Neill, Digital Circle Steering Group
Andy McMillan, Digital Circle Steering Group
Kevin Traynor, Digital Circle Steering Group
Aidan McGrath, Digital Circle Steering Group

The Recommendations.

E.14 In our review of the economic challenges facing the NI economy (Chapter 2), we highlight the following:

- The economy has achieved a rapid rate of economic growth relative to other parts of the UK, in both output and employment terms. However, NI has been unable to make progress on a convergence of living standards towards the UK average, with relatively poor labour productivity the main factor behind this;*
- Invest NI has a relatively attractive value proposition for investors, particularly given the competitive wages, skilled labour and generous incentives on offer;*

Our response: The rapid rise in economic growth (revenue) but lack of progress towards the UK average standard of living (profit) highlights a serious issue for Northern Ireland. It is our opinion that we must stop promoting Northern Ireland as a competitive cost centre.

On page 39, **Table 2.7: Annual Salaries for Jobs in Financial and Business Services (2006)**, there is a damning trend for Northern Ireland as Belfast is at the bottom rung of the ladder in terms of salaries. This could lead to a descending spiral for Northern Ireland to market itself as a cost-competitive location with lower salaries (than comparable locations such as Dublin, Glasgow or Cardiff) while attempting to shore up the standard of living considering that the cost of living in Northern Ireland is not significantly different to the rest of the UK (when you take into account the lack of competition and additional costs for transport, energy and delivery services).

We cannot continue to market Northern Ireland in terms of being cheap. We must choose our pillars carefully highlighting the education and innovation of the region. Significant attention must be paid to how Northern Ireland is promoted outside of the region especially through InvestNI's overseas agents.

With a reduction in the potential incentives, we will not have as much of a cost benefit compared to other regions and therefore we must only trade under those values which differentiate us from low-cost regions.

E.15 In our review of the current policies and programmes operated by DETI / Invest NI (Chapter 3), we outline the following:

- Despite the recent rationalisation of programmes, Invest NI continues to offer a very large and complex number of programmes to businesses in NI;*
- Selective Financial Assistance (SFA) is the most significant single programme Invest NI uses to support businesses. However, changes to EU regional aid rules from as early as January 2011 mean that NI will have considerably less scope to support firms using SFA, with aid ceilings expected to reduce further, potentially to zero, post 2013;*

Our response: In our members experience, the number and variety of programmes available under InvestNI are beyond the ability of any individual member of InvestNI's staff to explain and detail. We would strongly endorse the need to simplify and streamline the programme list and ensure that all staff engaging with Northern Ireland business are aware and able to elaborate on all of the programmes regardless of their applicability.

We recommend that programmes are simple enough for the whole portfolio to be easily understood by an individual.

We do not consider the changes being brought to SFA under EU regional aid rules to be a major effect to Northern Ireland SMEs in our sector due to the reduced likelihood that any of the companies in the Digital Media sector being able to avail of funds anywhere near the EU limits.

E.16 *In our review of the impact of the current policies and programmes (Chapter 4), we observe the following:*

- Invest NI has contributed significantly to NI's economic performance in terms of employment growth. Offers of assistance through SFA were associated with 28,000 new jobs, 15,000 safeguarded jobs and £2.4bn of investment over the period 2002/03 - 2007/08;*
- When compared to other UK regions, NI has attracted a higher number of new foreign-owned investment projects and promoted a higher number of jobs per head of population. However, many of these jobs, particularly those in the service sector, offered wages below the private sector average (e.g. contact centres). Furthermore, a significant proportion of support was associated with safeguarding jobs in the manufacturing sector;*
- Invest NI has been particularly successful in promoting higher value investments in ICT, although most of these were in expansion projects in firms already located in NI rather than in new firms;*
- The projects assisted by Invest NI have been successful in job creation, however, their impact on productivity has been limited;*
- The cost of additional jobs created is high.*

Our response: The mission statement of Invest Northern Ireland has always been concerned with the creation of wealth for the region. By attracting contact centre jobs with salaries on the low end of the scale, the productivity has not increased for the region and therefore the standard of living has not changed for the better.

We believe InvestNI should focus on assisting indigenous IP-generating companies which are domiciled and intending to remain in Northern Ireland.

In spite of the lack of tailored programmes of support, the Digital Media sector is growing fast and exporting worldwide and companies are being formed.

E.17 In our proposals to realign economic policy in NI, we base our recommendations following an in-depth assessment of what drives economic growth in a region such as NI, and also what the key elements are in terms of global best practice in economic development. With regard to the drivers of regional economic growth (Chapter 5), we note:

- The promotion of Innovation and R&D – including business sophistication and, at the regional level, technology transfer – is the most important long term driver of productivity. This is essential for NI to move up the value chain; and*
- Competitiveness varies between places in a region, with cities often offering higher growth and productivity. It is therefore important to allow companies the scope to locate where they can operate most profitably.*

Our response: We would encourage more mechanisms for technology transfer not only between SMEs and Universities but also between separate SMEs.

The Innovation Voucher scheme, for instance, provides the basic costs for the building of a relationship between industry and academic research. It is our opinion that this scheme should be expanded and funded to a higher degree. We would also welcome the opportunity to engage with our colleagues in academia on a more level playing field and for local industry to be part of the reason the Universities exist.

Inappropriate use of Innovation Vouchers for technical development which takes work away from local SMEs (for web development, for mobile software development) has a negative economic impact and a damaging effect on the confidence of the Digital Content sector.

From commercially driven research, it is estimated that only 20% of the research projects will eventually be commercialised via the technology transfer organisations within local academic institutions (UUTECH and QUBIS). We have already approached the universities with the notion of a Northern Ireland Science and Technology Fair (which was well-received within Ulster) with a view to taking the next 30-50% of research projects to the local market of investors and entrepreneurs to see if it can create a business.

The mechanisms for technology transfer outside of Innovation Vouchers are hard to navigate and access. The ownership of intellectual property is heavily slanted towards the Universities and the potential saddling of high licensing fees provides a serious disincentive to the entrepreneur even if the Intellectual Property rights in question were unlikely to be commercialised.

E.18 In terms of global best practice in economic development (Chapter 6), we observe the following:

- Leadership comes from the top to promote a shared vision and drive alignment in economic policy;*
- Productivity transformation for the economy is recognised as a long term commitment;*
- Successful regions place intense focus on attracting, retaining and embedding anchor institutions;*
- High performing investment agencies have cultures that are responsive, fast-moving and work to overcome bureaucracy. They are outcome, rather than process focused, and they recruit staff that are proactive, solutions-based and are themselves entrepreneurial in outlook;*

Our response: In order to address some of the problems outlined in earlier points (low productivity, low standard of living, low wages), it is important for advisors to impress upon the leadership that the quality of job (in terms of skills, salary, wealth generation) is the main measure in attracting anchor institutions to Northern Ireland. This means employing advisors who have their finger on the pulse of cleantech, biotech, greentech and digital media and software.

The long term commitment for a change in culture needs focus from the top and needs to be ingrained in the institutions which support industry. We must embody the notion that business failure is something that can happen and companies should not be sustained beyond their reasonable lift on 'grant-aided life support'. Local entrepreneurs need to be pushed to have grander visions but also they must be allowed to 'fail fast'.

We would demand greater support for leadership and entrepreneurship from Government and InvestNI.

Rather than cash handouts, appropriate programmes (such as Trade, Passport to Export) provide a high-value and specifically targeted solution which reaps benefits for local companies seeking export opportunities. InvestNI client executives should be focussed on the amount of resource they can release for companies rather than being perceived as gatekeepers for resources.

E.19 The recommendations designed to realign economic policy in NI are outlined in Chapter 7 and some of the key proposals are as follows:

- In light of the reducing regional aid ceilings, grants for business expansion – which tend to have low levels of additionality – should be phased out towards 2013. The resources should be redirected to provide greater levels of support to Innovation and R&D in indigenous and foreign owned companies, and also to attract companies new to NI;*
- A new institution for commercially-orientated research should be explored in NI, along the lines pioneered by the successful VTT institute in Finland;*

Our response: We would encourage better levels of support for Innovation and R&D but also to extend this to include 'creativity' which is harder to define for process-driven agencies but provides a valuable contribution of high-quality and therefore high-margin work for Northern Ireland.

By investing in local Innovation and Creativity and promoting these on a world stage (through Trade and Export), we believe it will be much easier to attract high quality FDI to Northern Ireland. Northern Ireland has to be seen as a name on the international stage and needs to pick it's categories carefully. If the region can demonstrate sufficient expertise in certain areas (such as mobile development or excellence in e-Learning software), then it will serve to attract FDI which is aligned along these pillars.

InvestNI should only court high quality FDI that will raise the technological expertise of N.I. FDI projects must commit to (and be measured on) sub contracting to the indigenous business.

It is our perception that the Northern Ireland Science Park already represents the bulk of an institution for commercially-oriented research and development. We would encourage expansion of this to include additional space and capabilities for 'digital' sector companies and support the creation of multiple linked 'digital hubs' close to internet Points of Presence to reduce costs for local companies to have access to best-of-class Internet connectivity.

E.20 An important aspect of this Review has been to consider not only the nature of the policies and programmes designed to support businesses in NI, but also the governance structures that inevitably influence how they are delivered. This issue is explored in Chapter 8 and some of the key recommendations are as follows:

- The core economic functions (covering existing DETI and DEL areas of responsibility) should be brought under a single 'Department of the Economy';*
- The FM / dFM and the Executive should establish a permanent sub-committee, chaired by the ETI Minister and comprising Ministers from other relevant departments involved in economic development, to prioritise action on the economy;*
- This committee should oversee the development and implementation of an economic strategy, building on the findings of the IREP, as a matter of urgency;*
- 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. To assist in this, their delegated authority limits should be simplified and increased; and*
- A small business unit should be created within Invest NI to develop supply chain capabilities throughout the NI business base and also co-ordinate policy when the agreed economic development functions are devolved to local authorities.*

Our response: We would encourage an increased focus on the economy with the formation of a specific sub-committee and the ultimate goal of wealth generation for the province as it's singular purpose and for it to have remit over areas previously covered by DETI and DEL; however dissolving these areas of responsibility to create the single Department of the Economy, would be politically sensitive and this sensitivity would induce delays which would be detrimental to the eventual delivery.

We would encourage more delegation of authority from DETI to InvestNI to allow InvestNI to manage it's own budget more freely but also have an additional requirement on the freedom of information on all public funding sources.

We would also have to insist that the local supply chain be taken into account and there should not be a list of 'preferred suppliers' in any sector from which InvestNI clients are encouraged to pick their services from. The liaison with the industry should come through trade groups and/or their authorised consortia (e.g. Momentum/NISINE, Digital Circle). InvestNI client executives must not make referrals or recommendations (unofficial or otherwise) regarding suppliers to commercial clients in the Digital Media and Software sector.

The desired effect is to have InvestNI be more responsive and also to be more responsible to business and the general public. With a decrease in business expansion (SFA), there should be a budget for early stage seed funding for entrepreneurs, perhaps with a commercial partner involved in the incubation of these companies.

Full List of Recommendations

We are broadly in support of many of the recommendations though some have specific interest for this sector. We have identified the following as being of the highest importance.

Policy Delivery (Invest NI)

- **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
- **Invest NI should work to significantly reduce the number of its support programmes**
- **Most assistance delivered via SFA should be redirected** between now and 2013 to **provide greater levels of support to Innovation and R&D**
- **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

Our members have found that the status of “InvestNI Client” is unclear and generally comes to mean any company which has received “core support” from InvestNI without any detail on what that support entails or whether it is subject to levels or audits. It is our contention that any company approaching InvestNI should be aiming to achieve above these levels and those who cannot, should not receive assistance. It should be the role of the ‘client executive’ to encourage and facilitate’ and help the entrepreneur to think big enough for the idea.

A renewed approach to early business ideas and expert technical understanding should be exercised as soon as possible within InvestNI.

Simplification of the programmes and a higher commitment to Innovation and Creativity is paramount.

Portfolio of Innovation policies

- **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
- **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
- **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
- **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
- **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

We would support the creation of a commercially-oriented research institution as we have seen the benefits of an organisation such as the National Digital Research Centre (NDRC) in the Republic of Ireland.

We are very much in support of the creation and promotion of innovation communities to drive stronger links between universities and industry. It is of paramount importance that these links are not just to the large companies with significant resources in the region but that special care is taken to engage the small companies with limited resources.

We would encourage the expansion of the Innovation Voucher scheme to permit multiple engagements between SMEs and Academia but also that the quality of the innovation be rated by independent in-field experts drawn from industry and academia. If possible, we would also suggest that Innovation Vouchers vary in size depending on the size of the company with the smallest of companies able to leverage the largest amount of assistance.

We look forward to the implementation of the MATRIX report and any updates required to the strategy in light of the global recession and the recent increase in the digital sector (cf The Digital Content Strategy, 2008)

Finance

- **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

Based on our individual interpretation of this recommendation, we can not support this recommendation where it applies to Seed Stage Projects and up to Series A Venture Capital.

Where InvestNI's involvement compromises the flexibility and speed of delivery of large scale Venture Funds (cf Fund of Funds), we would feel their involvement should be minimal and supportive.

This evidence is borne out in the statistics showing that Northern Ireland has less than a fifth of the Venture Capital activity of Wales and fifteen times less than that of Scotland. In all, we have a Venture Capital market of less than 1% of that which is in the South East of England alone and of the total Venture capital activity in the UK, Northern Ireland represents 0.2%.

We are, however, in full support of the letter submitted by our colleagues in NISP CONNECT regarding this recommendation. We believe that the recommendation is open to interpretation and therefore requires urgent clarification.

Project Appraisal

- **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 would encourage an assessment of the project appraisal rules and work completed to help appraisers understand the involvement of risk in entrepreneurship. InvestNI client executives and contractors should have some public disclosure of their previous entrepreneurial experience.

Under the current appraisal rules, would most of the successful Silicon Valley businesses (if operating here) ever have achieved funding from InvestNI? It is therefore necessary that InvestNI achieve more freedom to manage their own budgets and also more 'freedom to fail' in terms of taking risks with startup companies.

Governance Arrangements

- **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
- **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

The role of the InvestNI client executive should be in trying to work out any method of support for the client. Too often we see local entrepreneurs rewriting business plans to specific forms and changing their ideas to justify the support they should be entitled to.

It is our opinion that this work should be delegated to the Client Executive who knows the system better and the Investment decisions should be predicated on the Client Executive's ability to describe the opportunity rather than the ability of the entrepreneur to fill in a form in order to progress.

The workload created by excessively long and complex application forms is a distraction from the core role of the entrepreneur and a threat to the continuity and future success of the business.

In this, the delegation of authority to allow a Client Executive the freedom to allocate initial seed funds should be permitted (and information publicly available on all such seed funds) especially for programmes which are highly involved (such as GAP).

We would encourage the expansion of seed programmes such as the "Making It" programme funded by DCAL via Craft NI to expand across the Digital Sector to enable early stage startups to meet their commitments and leverage other funding. We would also encourage an expansion and improvement of the Digital Media Fund held by Northern Ireland Screen for seed ventures and digital content creators in the Digital Media Sector.

Skills

- **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

For a vibrant entrepreneurial culture, Northern Ireland needs to embrace leaders from local industry as well as use industry links from beyond our shores.

Our recent work with the Irish Technology Leadership Group and the engagement of the Ulster Business School with Babson College indicate how we can leverage external expertise from world leaders in their sector to inspire and inform the next generation of entrepreneurs as well as provide skills for our existing leaders and potentially involve them in the up and coming companies of tomorrow.