

INDEPENDENT REVIEW OF ECONOMIC POLICY (DETI / INVEST NI)

STATEMENT BY ARLENE FOSTER MLA

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INTRODUCTION

1. Mr Speaker I wish to make a statement on how I propose to take forward economic development policy in Northern Ireland. My decisions are based on the Independent Review of Economic Policy, the outcome of the consultation exercise on that Review, and the discussions I've had with key stakeholders on the Report and its recommendations.
2. As members will be aware, I commissioned the Independent Review in December 2008 and the overarching aim was to assess DETI and Invest NI policy, to determine whether it was sufficient to help deliver the productivity goal contained in the Programme for Government.
3. In that light, I asked for a root-and-branch review of economic development policy and I'm grateful to the Panel for their report – published on 29 September 2009 – and its detailed and wide-ranging recommendations.
4. Given the strategic importance of the Review, not least because the economy is the top priority for the Executive, I issued the report for a short six-week period of public consultation, which ended on 16 November 2009.

5. I'm grateful to the 69 respondents and today, as part of my statement, I'm publishing a consultation report which contains a summary of what was said in the consultation, together with access to the more detailed responses. These responses have added to the Review and helped shape the actions which I will outline.

IREP REPORT / THE ECONOMY

6. Mr Speaker aside from responding to the recommendations, which I will shortly outline in some detail, the timing of the Report is also of immense significance.
7. It comes at a time when we are working to rebuild the local economy which, in common with other parts of the United Kingdom and beyond, has, and continues, to suffer as a result of the global downturn.
8. Since December 2008, the number of unemployment claimants has increased by almost 18,000, and many businesses have been forced to cut back on or cease operations. This has contributed to a 63 percent increase in the number of redundancies notified to my Department in the previous year.
9. Moreover, although the Construction sector has been very significantly hit by the downturn, there have also been marked declines in output over the year in other sectors including Manufacturing and Services.
10. It is therefore welcoming to note that many economic commentators are beginning to forecast some improvements to the local, national and global economies in 2010. There are indeed **some** signs that the impact of the downturn **may be** starting to ease in Northern Ireland. For example, the latest increase in the claimant count is significantly below the average monthly increase experienced over the last year.

11. Clearly as we work to implement the findings of the Review, my aim is to improve further the prospects for economic growth and higher living standards throughout the whole of Northern Ireland.

IREP REPORT - HIGH LEVEL

12. Turning then to the Independent Review, I very much welcome the report and its recommendations. It has recognised the need to provide short term support for companies – along the lines we have been doing – in order to ease pressures resulting from the recession.
13. But, for the medium to longer term, the Review has also endorsed the policy ambitions of the Executive, namely to build a more value added and productive economy.
14. Mr Speaker, as I will indicate later, many of the recommendations will be implemented by my Department and Invest NI as soon as practicable. Others, by their very nature, will require further analysis and discussion. That is to be expected given the strategic nature and importance of the issues being covered.
15. Furthermore, a vitally important aspect of the Review is that it has clearly stated that efforts to raise living standards and productivity in Northern Ireland **cannot** lie solely at the door of DETI or Invest NI.
16. Other departments also have important roles to play, particularly in terms of skills, planning and investment in infrastructure. Furthermore, as the Review highlights, it is ultimately the responsibility of companies in the private sector to invest in areas such as skills, exports and R&D and Innovation in order to boost competitiveness. I'll return to how I intend handling the cross departmental proposals later in my statement.

17. Mr Speaker, notwithstanding these issues, I believe the report from Professor Barnett and his colleagues represents a significant piece of work which will help shape economic development policy in Northern Ireland, particularly as we enter this new decade with its challenges and opportunities.
18. Following the statement today, which outlines my position on the recommendations, I have asked the Permanent Secretary of my Department to establish, with immediate effect, a steering group to implement those actions I wish to take forward. The group will include representatives from Invest NI and I will be looking to this group to report regularly to me on progress towards implementation.
19. To add a degree of independence, I can announce today that Dr Ian McMorris, who is an independent board member of my Department, and Dr Bill McGinnis, who is the Northern Ireland Skills Advisor, have agreed to join this steering group. They will each add an important external voice, particularly in terms of their considerable experience within the business community.
20. This steering group will be supported by four implementation groups, again chaired at a senior level, and will include, where appropriate, officials from other Executive Departments. Each of these groups will oversee the implementation of recommendations that fall within the areas of:
 - The co-ordination of economic policy in Northern Ireland;
 - DETI and Invest NI assistance to industry;
 - Autonomy, flexibility and decision-making; and
 - Policy development and monitoring

21. Mr Speaker, I now wish to outline my response to the major recommendations contained within the Independent Report and I will do so in the four areas just mentioned.

ECONOMIC POLICY IN NORTHERN IRELAND

22. I'll begin with some comments on the recommendations made to strengthen the co-ordination of economic policy in Northern Ireland.
23. The most significant of these is that the core economic functions – covering existing DETI and DEL areas of responsibility – should be brought together under a single Department of the Economy.
24. As I mentioned previously in this house, this is something that I strongly support. It is imperative that we work to reduce the number of government departments in Northern Ireland and the rationale of bringing together the responsibilities of DETI and DEL is, in my mind, very strong and clear.
25. Skills are, without doubt, a critical factor in economic development, not just for businesses locally, but also as a means of attracting value added and internationally mobile companies to locate and develop their business operations here in Northern Ireland.
26. Of course, DETI and DEL already work closely together in order to align policy and match the demand and supply of skills. This has been acknowledged in the report, but the Panel has rightly stated that we can and should go further.
27. They have argued that bringing responsibilities together under a single Department would ensure the maximum possible flexibility and responsiveness to business needs – both for local companies and also to attract and retain international businesses.

28. Mr Speaker, as I have indicated, the merits of this proposal are very clear to me and I support the recommendation to create a Department which has a much broader policy remit than either DETI or DEL.
29. However, as I indicated earlier, a number of the Panel's recommendations will inevitably require further analysis and discussion and, in some instances, they will also require agreement with other Executive colleagues. This is clearly one such recommendation.
30. Therefore, Mr Speaker, I wish to give indication that I have today issued a paper to my Executive colleagues which seeks their agreement to consider the creation of a Department of the Economy as part of the planned review of strand one institutions.
31. But I also fully recognise – as did the Review Panel – that getting agreement and implementing new departmental structures is something that presents its own challenges and will inevitably take some time.
32. That is why I am also advocating, in the Executive Paper, that we take the interim steps suggested by the Panel to improve the structures that are currently in place.
33. In my view, central to this is the establishment of a sub-committee of the Executive to prioritise cross-departmental action on the economy and to address the recommendations that fall not only to my Department, but also those that cover issues such as skills, planning and infrastructure.
34. Mr Speaker, with regard to planning I welcome the proposals that Minister Poots has put forward as part of his Executive paper on planning reform. I particularly welcome the fact that a number of the proposals in the Executive paper on planning are aligned with the recommendations made in the Independent report.

35. In reaching Executive agreement on the establishment of a sub-committee, it will, of course, be imperative that we are clear on its membership and remit, and discussions will need to be held on this. However, while recognising that developing the economy cuts across all departments I envisage that initially the sub-committee should comprise Ministers currently responsible for delivery of the Programme for Government goal of improving private sector productivity. This embraces DETI, DEL, and DRD, but it should also include OFMDFM and DFP given their central role, and I expect that other Ministers would need to be involved as specific issues arise.
36. In terms of its remit, the Panel have suggested that the sub-committee should take forward the development of an economic strategy for Northern Ireland, building on the findings of the Review. As Northern Ireland is a small region, I believe that we should work to produce a single overarching economic strategy which aligns with and helps shape other Executive strategies.
37. It is vital that we have this strategy in place to grow the economy as Northern Ireland emerges from the recession, to ensure that we are able to compete more effectively on both a regional and global basis and to help prioritise resources.
38. Indeed, I would go further to suggest that this new economic strategy should be at the heart of the next Programme for Government. Therefore, Mr Speaker, in my paper to the Executive, I am proposing that the sub-committee should be established to begin work on developing the economic strategy and I have suggested that this should be completed well before the end of this calendar year and in time to inform the Executive's next Programme for Government and Budget which will take effect from April 2011.

39. I look forward to discussing these important issues with my Executive colleagues, and agreeing how we take them forward as a matter of urgency.
40. I would stress that I'm **not** relying solely on the new measures that I've just outlined. For, today Mr Speaker, I welcome two important and significant initiatives on skills.
41. **Firstly**, as part of the incentive to attract new investments and expansions in Northern Ireland, DEL and Invest NI will take forward a pilot designed to offer an assured provision of a skilled workforce tailored to the specific needs of the companies based on a successful model of support in North Carolina. The details will be announced by the DEL Minister in the near future.
42. **Secondly**, the two organisations are collaborating in the development of an integrated framework for Management and Leadership to improve support in this important area as highlighted in the independent report.
43. Mr Speaker, members will also be aware that the Independent Panel made a number of recommendations about how we might better tailor the assistance that DETI and Invest NI offers business. I will turn to these in a moment, but before doing so, I want to touch briefly on the range of businesses that we assist.
44. The Review Panel highlighted a concern that Invest NI support is not available for a large section of businesses in Northern Ireland who fail to meet eligibility criteria. In particular, it has been recommended that the concept of Invest NI 'clients' should be removed to allow Invest NI to work through the entire business base to provide support for innovation, R&D and export growth.

45. In reflecting on this recommendation, I want to acknowledge, first of all, that Invest NI currently supports the wider business base through many initiatives. These include export programmes which are available to any company in Northern Ireland wishing to explore new markets, new schemes such as Innovation Vouchers and the Growth Programme targeting small and micro businesses through to advisory support such as the Credit Crunch initiatives which I launched in 2008 and the nibusinessinfo.co.uk website.
46. It is also important to recognise the need to maintain an on-going relationship with businesses, with many of our investments spanning a number of years. It is also imperative that Invest NI is able to monitor fully the performance of individual companies throughout the various stages of financial assistance.
47. In that light, I've asked the Chief Executive of Invest NI to review how the organisation could develop a tiered portfolio of support across the wider business base to accelerate innovation and export growth. As part of this review, I have also asked for consideration to be given to how the development of a Small Business Unit could fit within this model to provide a more dedicated resource to supporting small businesses throughout Northern Ireland. In particular, to open up supply chain opportunities, similar to that which has already been developed for the aerospace sector. Invest NI will bring forward proposals in this area by September 2010.
48. An important aspect of this review will also be to examine how small business support is co-ordinated with the District Councils in the context of the Review of Public Administration.
49. Mr Speaker, as is evident today, while I'm keen that support is offered as widely as possible, it should also be stressed that we're in a much tighter public expenditure environment than we've ever been before.

50. This will inevitably mean that we will need to take difficult decisions in order to prioritise our limited resources towards those businesses and projects that offer the greatest potential for raising living standards and private sector productivity in Northern Ireland – in doing so, we must focus on those projects that offer the greatest return to the economy.
51. It's also important to recognise that support isn't just about financial assistance. When I meet companies they often comment on the very real benefit of the practical, advisory help they receive from Invest NI on a diverse range of issues such as researching new markets, Intellectual Property or the strategic direction of the business.

DETI / INVEST NI ASSISTANCE TO INDUSTRY

52. This leads me to comment on the assistance that DETI and Invest NI provides to industry. A fundamental issue at the heart of the Independent Report is the view that there needs to be an accelerated shift towards support for Innovation and R&D from employment-based schemes, such as Selective Financial Assistance.
53. **Firstly**, the report highlights the very real prospect that regional aid limits for the support we offer to projects through SFA will be significantly reduced. That process has already started and we will see major changes from the end of 2010.
54. **and Secondly**, the Panel has drawn on a substantial body of evidence which suggests that innovation should be considered as the primary productivity driver for a regional economy such as Northern Ireland. In particular, innovation is critical if local firms are to maintain and improve their competitiveness in export markets.

55. Together, these factors provide both a push and a pull in the direction of increasing support for Innovation and R&D. I fully accept this analysis, and indeed it must be recognised that Invest NI has taken action already to skew more resources towards Innovation and R&D support in recent years.
56. For example, the Independent Panel acknowledged that assistance for Innovation and R&D had increased by 20 per cent in real terms in 2008/09, when compared to the previous six year period. This has been accelerated in this current financial year when Invest NI increased its budget allocation for Innovation & R&D by a further 30 per cent. This represents a shift of over 60 per cent in the past two years and expenditure on Innovation and R&D now accounts for some 38 per cent of programme spend. I have asked my officials to continue to look for ways to maintain this trend.
57. The Independent Panel made a number of specific recommendations in relation to the portfolio of innovation policies and support programmes that are currently on offer. In particular, the Panel suggested that the innovation system in Finland is an example of best practice and should be explored further.
58. My Department has already started a thorough and comprehensive review of best practice in economic development policy in other small open economies throughout the world – including in Finland – with an aim of identifying transferrable lessons for Northern Ireland. This work is due to report later in the Spring, and it will be used to inform the development of policies and programmes going forward.

59. The Independent Panel further recommended that additional support for Innovation and R&D should not involve new public expenditure, but instead be financed from savings in other areas – particularly in relation to grant support where there were concerns in relation to the lower value added nature of some of the projects supported, and lower additionality in certain areas, most notably business expansions.
60. This touches on the key issue of DETI and Invest NI assistance to industry and there are a number of points I wish to highlight in relation to the use of financial assistance.
61. **Firstly**, I wish to repeat my firm belief that there is **no** evidence in the report that resources have been wasted. Indeed the Review Panel themselves recognised that Invest NI has made a significant contribution to economic and employment growth in Northern Ireland and actually reported that on a per capita basis, Northern Ireland has the most successful record in attracting FDI into the UK.
62. **Secondly**, the Review Report makes specific recommendations about the assistance that is offered to business expansion projects. However, it is important that we recognise the realities of business investment where companies will often test the market with an initial investment, before building an operation to a critical mass in a series of subsequent investments, often by adding new and other mobile functions. This could require, on occasions, the need for Invest NI to support these subsequent investments.
63. **Thirdly**, the Panel quite rightly recognised that we are now entering a period where the availability of public expenditure is tightening, and against that backdrop, they didn't wish to present a set of proposals which unrealistically required significant sums of additional monies.

64. However, in recognising this reality, it is also important to reassure members today of the existence of the Industrial Development Guarantee which is designed to ensure that 'no worthwhile proposal for eligible support to investment in industry or tradable service will be lost'.
65. Mr Speaker, as I referred to earlier, we're entering a new policy framework where changes to State Aid limits from the end of this calendar year means that, going forward, we will not be able to support businesses using SFA in the same way, or to the same extent, as we have done to date. We must therefore look to increasing support for businesses using other existing or newly developed instruments.
66. The critical issue then is how we should be deploying SFA, both now and in the run up to 2013 when we may lose SFA as a policy instrument. My view is that we should continue to use SFA for as long as we can, particularly as we seek to rebuild the economy in the aftermath of the recession.
67. However, going forward in non-recessionary years, we also need to consider how we best deploy SFA effectively to improve productivity. This was a key point in the report. My view is that SFA should be used in the future to support investment in indigenous companies and help attract new and potential follow-on investments to Northern Ireland. That must be the key to improving relative living standards here.
68. I accept that this is a challenging area and one where there are a number of views. During the consultation process, concerns were raised, principally from the business organisations, about increasing the level of support for Innovation & R&D at the expense of SFA.

69. In that light, I have asked the implementation group covering DETI and Invest NI assistance to industry to bring forward recommendations on when and where we should be using SFA. This could potentially involve setting higher job quality thresholds than those currently in place. It may also involve supporting certain strategically important projects and those in areas of particular economic need.
70. However, I wish to stress today that given the nature of our work where multi-year financial support packages are agreed with businesses, it should be recognised that there will be limited scope to make changes to Invest NI spending in 2010/11. It is therefore about preparing for change for the new Programme for Government period starting in 2011/12, though we will, of course, need to ensure that we are careful not to take any actions now or enter into new commitments that would unduly compromise our room to manoeuvre in the future.
71. Moreover, and looking forward to 2013, with the very real prospect of significant reductions to regional aid, I wish to reassure members today that I and other Executive colleagues will be doing all we can to secure the best deal for Northern Ireland.
72. I have therefore asked my officials to begin preparing a case, with other relevant bodies, to seek to maximise state aid cover for any future SFA type programmes post December 2013, and indeed other programmes designed to support business competitiveness, particularly in the areas of Innovation and R&D.
73. My comments so far have focused on SFA. This is appropriate as the programme accounts for currently around 40% of Invest NI support and it was also the subject of much of the Panel's analysis. However, Invest NI also offers a wide range of other programmes to assist businesses, and the Independent Report has also made comment on these as well.

74. In fact, the Report suggests that Invest NI's offering is unnecessarily complex and proposes that the number of programmes should be reduced. I know that Invest NI has made good progress in rationalising its programmes, but I believe further progress could be made. I have therefore asked the Chief Executive of Invest NI to review the number and breadth of Invest NI programmes with a view to producing a consolidated suite of offerings in a business friendly format which will support the growth of export and innovation in Northern Ireland businesses. I have asked Invest NI to complete this review by June 2010.
75. The Panel also commented on Invest NI export assistance, suggesting that a more professional and fee-charging model should be adopted. Entering new markets outside Northern Ireland is an important way for local businesses to realise their growth potential. I have seen, at first hand, the real value that Northern Ireland companies get when they take part in market visits and I'm encouraged that Invest NI is committed to further developing its export assistance.
76. Obviously the merits of this proposal need to be given more detailed consideration and we need to be careful in introducing or revising any fee-charging structure to ensure that it doesn't become prohibitive. However, I'm aware that Invest NI has already carried out some work in this area and will be bringing forward new proposals in March 2010 for the next financial year.
77. Furthermore, the Department had already planned to evaluate Invest NI's export assistance and work is due to be completed towards the end of this year. Clearly the implementation group covering DETI and Invest NI assistance will need to reflect on the findings of this evaluation when it becomes available to ensure that we offer the best quality exporting support to Northern Ireland businesses.

78. In terms of other recommendations, the Review also made proposals in relation to assistance for training, the financing of businesses, industrial land provision, exploiting telecommunication infrastructure, and the social economy.
79. In terms of training, the Review Panel recommended that 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. Unsurprisingly concern was expressed, principally from the business organisations, about the impact of this recommendation. I understand the evidence underpinning this recommendation was drawn from an evaluation of the Company Development Programme, and this programme has been superseded by the Business Improvement Training Programme. This new programme is currently the subject of an evaluation – scheduled for completion by the Autumn – and this will help inform how we provide company training going forward.
80. Then, with regard to the financing of businesses, I recognise that high growth businesses are a key driver of economic growth, not just because they develop themselves and generate significant employment growth, but also because their dynamism stimulates competition and innovation throughout the economy as a whole.
81. In many instances, equity funding is the most appropriate type of financing for such companies. Recent evaluations demonstrate that an equity gap still persists in Northern Ireland, particularly covering the seed, early and development stages for deal sizes up to £2m. Therefore, I am of the view that Invest NI continues to intervene to support the development of the venture capital market in Northern Ireland.

82. Clearly today isn't the time to respond in specific detail to the full list of recommendations, however, my position on these and all of the other proposals contained in the Independent Report are set out in the detailed paper which I'm including as part of this statement.

AUTONOMY, FLEXIBILITY AND DECISION-MAKING

83. I would now like to turn to the third area the Panel made recommendations on, namely autonomy, flexibility and decision-making.

84. The Panel's review of global best practice has suggested that successful development agencies benefit from having freedom to operate in a way that allows them to be entrepreneurial and responsive to business needs.

85. This is a sentiment I fully support. Indeed, a key element of the original rationale behind establishing Invest NI in 2002 was the desire to create a development agency that was more business-like in its operations. However, a criticism often levelled at DETI and Invest NI is that the governance system remains too complex and time consuming and that this is impeding Invest NI's responsiveness.

86. I can indicate to Members today that my officials have already held discussions with DFP to explore how the current delegated limits might be extended, and I have asked that the relevant implementation group concludes on this issue as soon as possible. My aim is to try and have new departmental governance arrangements established by April of this year.

87. Furthermore, where major projects require DETI and DFP approval, I accept the Panel's recommendation that these cases should be considered in parallel by a Central Project Review Group.

88. Again, I have asked that officials from my Department and DFP agree the mechanisms that need to be established for this group to be operational from April 2010.
89. The Panel's report also contains a number of recommendations in relation to the organisation of Invest NI. In accepting the principle of greater autonomy, these, for the most part, are internal issues for the agency to consider. And I have asked the Invest NI Chief Executive to reflect on these recommendations, and to advise the implementation group of any steps he plans to take. This will cover areas such as the structure of Invest NI and the training of its staff.
90. Finally, in terms of decision making the Independent Report recommended that all ex post assessments of value for money should be taken on a portfolio basis. This is something that I very much support. I have long held the view that we must manage risk better, but in doing so we cannot afford to be risk averse. I have asked the Permanent Secretary to engage with DFP and the Northern Ireland Audit Office to explore how best this balance can be struck in practice.

POLICY DEVELOPMENT AND MONITORING

91. Before concluding, I would like to turn to the Independent Panel recommendations in relation to DETI and Invest NI's role in terms of policy development and performance monitoring.
92. I agree that it is right that the Department has **lead responsibility** for policy development and performance monitoring, and that it is important to have the appropriate resources in place to deliver on this.
93. The Permanent Secretary has already begun to review the DETI structures and I have asked him to look for ways to strengthen the Department's policy analysis and development function.

94. The Panel also recommended that DETI should assume responsibility for reporting on Invest NI performance, and I can confirm that this will be the case for the next Invest NI Performance Report which will be published at the end of the current Corporate Plan period.
95. Furthermore, I can also confirm that Invest NI's Operating Plan for 2010/11 will include targets specifically for investments new to Northern Ireland as per the Panel's recommendation.
96. I also agree that it's important that I and my Senior Officials have access to top quality and timely economic and business advice. The Panel have made a number of recommendations in this regard, and particularly in relation to the future of the Economic Development Forum.
97. I believe the Forum has played a very important role in advising on the direction of economic development in Northern Ireland since its establishment in 1999. Indeed, during my tenure as Chair, I've found the engagement with members to be very beneficial, and especially the work undertaken by its various sub-groups, including the more recent work which covered areas such as the economic downturn, manufacturing and exports.
98. However, as members will be aware, the Review Panel suggested that the current mechanism for the delivery of independent economic advice – through the EDF – was not optimal. A recommendation was made to stand down the Forum and replace it with a new, **smaller**, advisory unit, comprising representatives from business and economics. In making this recommendation, the Panel also stressed the importance of continuing to engage with stakeholders on a bilateral basis.
99. I have given these recommendations very serious consideration and I believe that the time is now right to change the way I receive independent advice on the economy.

100. I have therefore written to EDF members advising them that the Forum will be stood down and replaced with a new advisory unit, to be established by April 2010. This unit will include representatives from Invest NI, business, skills and economics. This unit will also address a further recommendation made by the Panel, namely the appointment of an independent economic advisor. I would also highlight today that I will continue to meet bilaterally with stakeholders on the economy, as and when necessary.

CONCLUSION

101. So, in conclusion, I have set out today my position on the Independent Report and the steps I plan to take to promote economic development in Northern Ireland.

102. Mr Speaker there is no doubting the fact that the challenges are now even greater given the impact of the recession on the Northern Ireland economy. Invest NI uses the very appropriate phrase “Building locally, competing globally”. I believe the course I’ve outlined today represents one which will help Invest NI continue to do this in order to strengthen our competitive position – regionally and globally.