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November 2009

## **Consultation: Independent Review of Economic Policy**

The Federation of Small Businesses is Northern Ireland's largest business organisation with 8000 members, from across all sectors of industry, and over 210,000 members throughout the UK.

The Federation lobbies decision makers to create a better business environment and welcomes this opportunity to respond to this consultation on the findings of the Independent Review of Economic Policy. The FSB previously contributed to the Review and have welcomed the emphasis on reviewing the current policy framework in this area.

We trust that you will find our comments helpful and that they will be taken into consideration. The FSB is willing for this submission to be placed in the public domain. We would appreciate being kept apprised of further developments.

Regards

**Wilfred Mitchell OBE**

**Northern Ireland Policy Chairman**

## **Introduction**

The FSB welcomed the commissioning of the Independent Review of Economic Policy (IREP) as a necessary driver towards improving the structural effectiveness and programme delivery of the Department of Enterprise, Trade and Investment, and Invest NI.

The identification of the key productivity drivers of enterprise, innovation, skills and infrastructure is very welcome, and that it is necessary to progress these in order to boost overall economic conditions in Northern Ireland. SMEs make up 98% of the private sector and account for over 65% of employment in Northern Ireland. They are the backbone of the economy, and it is essential that their contribution is not overlooked.

In our written submission to, and subsequent meeting with, the Independent Review team, a number of areas were highlighted as being ineffective and therefore of concern the small business sector in Northern Ireland. These findings came as a result of internal research with the FSB membership base in Northern Ireland, many of whom have direct experience of working with Invest NI. They collectively communicated many concerns and disappointments over their dealings with this organisation.

**The FSB is broadly supportive of the contents and recommendations of the IREP report.** It offers a comprehensive analysis of how both DETI and Invest NI have performed over recent years, and made many sensible recommendations as to how these organisations can move forward in the future, working with the private sector, to deliver real economic value at a time when it is desperately needed.

However, world class business development can only be achievable with the provision of world class infrastructure, which will require heavy investment from the Executive.

We believe the political will does exist to make the requirement a reality.

Therefore, the FSB strongly agrees that to achieve this, the economy must remain as a priority for the Northern Ireland Executive for the foreseeable future.

## **FSB COMMENTS IN RESPONSE TO REPORT**

In response to this report, the FSB has highlighted a number of key areas for comment and further consideration.

### **Proposals for the future of the Economic Development Forum**

The FSB is concerned by the recommendation to stand down the Economic Development Forum (EDF). The EDF has proved to be an effective forum for a broad range of interests to interact and develop key policy areas. There is a concern that a replacement structure will not be in a position to accommodate the same

broad range of interests, and that key stakeholders could lose a voice at a critical time in the regeneration of the Northern Ireland economy.

Interaction between the public and private sectors is crucial in the Northern Ireland context and whilst we would express concerns about the overuse of 'stakeholder groups' and potential duplication in responsibilities and strategies, the EDF continues to be an effective tool for communication and analysis.

It is essential that any new small advisory body, possibly similar to the Scottish Council of Economic Advisers, should include representation from the small business community. The Federation of Small Businesses would be pleased to assist.

### **Co-ordination of Economic Policy**

The FSB has long called for efficient, joined up government to maximise the effectiveness of public policy delivery. The FSB will not comment on political issues but will say that if the Northern Ireland Executive is to realise its ambition of radical economic transformation, the structures of government must reflect the innovation and energy of the private sector.

The FSB welcomes the recommendation that DETI, DEL and Invest NI must work together to deliver coherent strategies, encouraging small business growth and development. An increasing role for private sector knowledge and expertise in the management of those government areas responsible for the economy would be especially welcome, opening up the public sector to a greater private sector ethos of delivery and efficiency of purpose.

The Report's recommendation that a permanent sub-committee be established to agree an economic strategy is an important and welcome one, which, assuming it has a decision-making remit to prioritise action on the economy, would demonstrate both leadership and political will. Such an initiative should not be delayed pending decisions on, for example, the future of the Economic Development Forum.

We welcome the Review Panel's consideration of global best practice, and we also look forward to the outcome of the related ongoing DETI research. In addition to the current areas of study, we would also recommend an examination of the remit and work of the Small Business Administration in the USA, with its advocacy and Ombudsman services, as an example of international best practice. The SBA is a clear recognition of the importance of small businesses to the American economy with a specific remit to provide dedicated assistance and support to grow the sector. This independent body states its Guiding Principles as: Creativity, Advocate; Results; Empower and Success ([www.sba.gov](http://www.sba.gov)) – principles that we would advocate for adoption by the Northern Ireland Executive. It exists to ensure that the government's commitments to developing small businesses are implemented and realised, and its clear annual reports assess progress against specific goals and targets. Such a body would be able to take account of the remits of more than one government department and make recommendations to all, and the FSB commends it.

## **Invest NI Clients**

This has been a controversial issue, with many small businesses believing they have been excluded from assistance because they do not qualify as 'clients' for Invest NI, and this has resulted in the perception that the most typical form of private sector enterprise in Northern Ireland is being ignored in favour of an elite.

There is some merit in retaining the client system to allow Invest NI to focus on export-led enterprises. However more emphasis must be directed towards developing a dedicated unit which would be able to concentrate on the wider small business sector, perceived at present not to be suitable for 'client' status (see below).

## **Small Business Unit**

In our submission to the Independent Review panel, the FSB called for the reorganisation of Invest NI to reflect different skills sets. Therefore, of all of the recommendations in the Report, we particularly welcome the proposal for the establishment of a small business unit within Invest NI.

It has long been our concern that not enough attention is given to indigenous small businesses, especially the vast majority who are not classed as Invest NI clients. In addition, there is often a lack of clarity as to 'who should be speaking to whom'. A clear definition of functional roles would greatly assist businesses and their policy-makers.

Such a small business unit ideally should have a broad responsibility and offer a wide range of practical programmes and services encompassing small businesses across the range of industry sectors. It should work in partnership with other departments, principally DEL and DSD, to offer support towards maintaining the sectors' viability, as a valuable contributor to the local economy which employs a significant proportion of the workforce and serves many communities throughout Northern Ireland. .which has faced challenging times over the past number of years.

## **Review of Public Administration**

The FSB has welcomed the Review of Public Administration and the proposal that the new councils will play a greater role in economic development than at present.

However, we do have some concerns in relation to the capacity of the new structures to immediately assume responsibility for key business programmes such as the Enterprise Development Programme; therefore the suggestion of a central co-ordinating role by a central small business unit is welcome.

The FSB anticipates that there could be some confusion at local level for businesses between the Invest NI regional network and local council responsibilities; therefore

the recommendation for integration between these two is welcome to prevent unnecessary overlap and wasted resources.

## **Innovation / Research & Development**

Innovation, R&D and knowledge-led enterprise are key drivers of commercial-led enterprise and of the Northern Ireland economy. A good start has been made with the implementation of the Northern Ireland Regional Innovation Strategy, and this can be enhanced by the recommendations to encourage greater SME focus in these areas.

The FSB supports the emphasis placed upon these areas within this report, and the recommendations, if implemented, will enhance the capability of government departments to support businesses in this area.

The FSB agrees with the proposed four elements of innovation policy as outlined.

## **Grant Assistance**

We are concerned with the recommendation to phase out business expansion grants, and would strongly support the Report's recommendation to the government to lobby Europe for extensions to current state aid rules. In the event that business expansion grants are to be phased out, this must be communicated to the business community and companies in receipt of or applying for grants, with sufficient prior notice and clearly signpost alternative options.

There is welcome potential in the recommendation for co-investment in the form of sub-ordinate debt and/or equity stakes although this will be a very new proposition for small businesses to grasp and may take time to become a recognised alternative by many.

## **Venture Capital**

Venture Capital will assume increasing importance in the Northern Ireland marketplace as the expected growth in the private sector develops. It is important to maximise this potential source of finance and have in place networks of engagement to connect venture capitalists and growth companies. Invest NI, as well as other bodies across Northern Ireland, could have a useful role in delivering a brokerage service.

## **Supply Chains**

A key component of building the small business sector's contribution to profitability and GVA will be the development of their role in supply chain networks, and building the capacity of local companies in the procurement process.

The FSB welcomes the Report's focus upon supply chain management, and agrees that this should be a key responsibility of a new small business unit within Invest NI,

which should encourage greater integration between local companies and larger organisations.

## **Export Assistance**

Small businesses require significant assistance and support if they are to view export as a feasible means of expanding their business. The FSB welcomes the differentiation between small and larger businesses with the proposal for different tiers in fees if the recommended new business model is adopted.

Likewise, the need for 'world class training in sales and marketing' will be especially valuable in the export field to ensure that small businesses are prepared for export, but they will require quality assistance to understand foreign markets, business practices, etc. This is a key area which must be developed in the drive to maximise small business export potential.

## **Tourism**

The FSB strongly agrees that there is significant potential in Northern Ireland for developing tourism as a source of economic input. It will be important to ensure that major visitor attractions such as the Giant's Causeway and the Mourne are capable of meeting the increased tourism potential of a higher volume of visitors to Northern Ireland, and that this potential is realised financially. However, it is also important that visitors are attracted to all parts of Northern Ireland, and that areas other than those designated as 'signature projects' receive adequate attention.

Similarly, small enterprises such as guest houses and gift shops are important to the tourist trade and must be supported, encouraged and grown.

To develop a comprehensive strategy, there must be a focused, centralised tourism structure, and with this in mind it makes sense that resources are centralised to avoid the potential for duplication and wastage.

## **Planning**

The FSB has called for a more prevalent business-friendly attitude from the planning service

Planning issues, and particularly delays in the planning system, are consistently identified by FSB members as a major barrier for economic development. Most often associated with large-scale development, planning also affects small business applications, which are most commonly concerned with:

- Improved storage facilities
- Improved signage for the advertisement of the business
- Change of use of existing premises
- Physical improvements to retail premises
- Rural businesses applying for changes facilitating farm diversification.

There must be a greater recognition amongst planners of the vital role that effective planning plays in the wider economic development process. The recommendation for clear processing time targets will be especially welcomed by small businesses. In the context of this report, planning is a key part of the wider economic development process. Structures can be implemented to encourage business efficient public policy development but their effectiveness will be reduced if an able infrastructure network is not in place to meet the needs of the entrepreneur.

## **Skills & Training**

Similarly to planning, the FSB believes there must be a greater emphasis placed upon skills development, and in particular greater investment in STEM subjects. The recent STEM report was welcomed, although this must now be converted rapidly into practical delivery, working alongside the promotion of business innovation and attempts to grow the knowledge-based sectors.

This area illustrates clearly the need for integration of strategies being pursued by different government departments, principally the Department of Education, DEL and DETI.

The FSB is concerned at the recommendation for a reduction in company training on a wide basis, with a greater concentration on specific criteria. Training is one of the key development areas for **all** businesses, deserving increased emphasis in the current economic climate, and already the FSB has had misgivings on the disbandment of the Management and Leadership Network. This recommendation requires serious consideration and review before being acted upon.

There must be provision put in place to assist small businesses who have the foresight to invest in training and development, including those whose markets are, and will continue to be, indigenous.

## **CONCLUSION**

The Independent Review of Economic Policy provides a basis to move the Northern Ireland economy debate forward, encompassing a set of recommendations to streamline the economic development functions of government whilst encouraging greater focus on programme delivery and assistance.

There is a welcome recognition for the importance of small businesses to the Northern Ireland economy, both presently and remaining so in the future, but it is only through practical action that this will become a reality.

The FSB accepts that this sector can contribute to its own success by embracing innovation, and with the support of government, further build its role as a key economic generator for Northern Ireland.

The FSB has called for a greater risk taking, entrepreneurial approach to our economic development policies and welcomes the recognition that this is necessary

if Northern Ireland is to recapture a reputation of business excellence and industrial innovation.