

1.0 EXECUTIVE SUMMARY

1.1 This report was commissioned by Fermanagh District Council (FDC), which requested Fermanagh Economic Development Organisation Ltd. (FEDO), to oversee its production; the latter sub-contracted the assignment to Peter Quinn Consultancy Services Ltd. This document has effectively been collated as the response from Fermanagh's business community and its District Council to the '*Independent Review of Economic Policy (DETI and Invest NI)*' (IREP), published in September 2009. As part of the assignment, the authors consulted with a cross-section of the County's business community (more than two dozen), as well as with a number of local Councillors and other interested parties, including educationalists; effectively, this report reflects many of their views. For convenience, those views are sometimes expressed in this report as coming from FEDO, but they represent those of a wider constituency, including those of Fermanagh District Council.

1.2 The overall conclusion from this assessment of the IREP is that, in most respects, this is an excellent report and the comments in this document have to be interpreted in that context. This assessment can be summarised in the following terms:

- (i) the analyses underpinning this report are of a very high order and this response is restricted to issues, which are considered to have potentially detrimental impacts on Fermanagh's economy; they include:
- the inability of the selected definition of 'productivity' to discriminate between 'real productivity' and 'false productivity';
 - the failure to take cognisance of the differential impacts of economic policy, on different locations, including, in particular, border areas;
 - the special needs of micro-businesses and their importance to the medium and long terms futures of the economy;
 - the potential contribution of local government to economic development;
 - the validity of some of the report's comparisons between indigenous and inward investment; and
 - the unduly narrow view taken of low-level, but valuable, product and process development expenditure.
- (ii) the conclusions drawn from those analyses are considered to be reasonably logical, with only a limited number of areas on which the business and statutory community in Fermanagh would disagree with the Panel's views; areas where 'Fermanagh' disagrees with the Panel include:

Response to "Independent Review of Economic Policy" (The Barnett Report)

- ◇ they have a totally different perspective on the significance of a 20% differential in the price of the main source of energy;
- ◇ the representatives of FDC and FEDO believe that the Panel has underestimated the volume and value of product and process development being undertaken in the manufacturing sector, and the consequent importance of any Selective Financial Assistance (SFA) provided;
- ◇ the business sector in Fermanagh and their representatives (FDC and FEDO) see commercialisation as the critical factor in the success of any development activity and believe that this has been under-valued by the Review Panel; the failure to address this 'disconnect' between R&D or innovation and their commercialisation is, by far, their biggest criticism of the report;
- ◇ they see the ultimate destination of those within the higher education system as being of a far higher order of importance than is attributed to it by the Panel;
- ◇ they reject the absolute ending of SFA, though they recognise the need for changes in the system and, probably, of some reduction in the level of expenditure.

However, FDC and FEDO both agree with vast majority of the conclusions reached by the Panel, as is clearly indicated in section 5 of this report.

- (iii) The commissioning bodies would have some concerns about a number of the recommendations in the IERP report; the main issues of difference [apart from the third bullet point in (ii) above] are as follows:
 - the Fermanagh representatives would not be quite so sanguine about the potential for collaboration between the business sector and either the public sector or the universities, though they recognise that both have the potential to be of value to business;
 - they believe that Northern Ireland should use whatever capacity it has to minimise the effects of changes in the EU rules pertaining to state aids, post 2013, including using any extension of the *de minimis* rule;
 - they see little potential for acceptance of Invest NI as investors in businesses;
 - they accept the need for support for the service sector;
 - they have concerns about anything which would create more bureaucracy.

Response to "Independent Review of Economic Policy" (The Barnett Report)

Given the number and variety of conclusions and recommendations in the report, it is obvious that the business sector in Fermanagh and their representatives accept the vast majority of what is included in the report and are happy to endorse it.

1.3 Finally, FDC and FEDO, on behalf of the business sector in Fermanagh, as well as on their own behalf, make two additional recommendations as follows:

- (a) DETI should make a specific allocation of funding to each District Council, of between £1.0 million and £3.0 million *per annum*, based primarily, but not necessarily exclusively, on population, for the express purpose of assisting micro-businesses (those with twelve or fewer employees – including the principals) and new businesses (those which have been established for no more than three years, provided they do not employ more than twenty people) with finance, mentoring, advice and networking contacts, harnessing the knowledge available in other agencies, specifically Invest NI, European Union bodies, InterTradeIreland, export-oriented organisations, banks and industry bodies; each local authority should make an annual return to DETI indicating how funds have been spent and what outputs have been achieved by the supported businesses, distinguishing between quantifiable, financial and economic outputs, and non-quantifiable or social dividends generated as a result of the support provided. (*See Paragraph 6.5.1 for the arguments in support of this recommendation*).
- (b) DETI should immediately commission a comprehensive study of the regulatory responsibilities for the provision of adequate and balanced economic and physical infrastructure across all areas of Northern Ireland, with specific emphasis on ensuring equity of access to infrastructural facilities in rural, border and peripheral areas, and should then act to ensure that any identified deficiencies are rectified as quickly as possible. (*See Paragraph 6.7 for the arguments in support of this recommendation*).
- (c) Public sector support for a graduate placement scheme should be considered. (*See Paragraph 6.6*)

1.4 Overall, Fermanagh District Council welcomes the ‘*Independent Review of Economic Policy (DETI and Invest NI)*’ and compliments the Panel members, notwithstanding a small number of areas of disagreement indicated above.

2.0 BRIEF SUMMARY OF THE MAIN ISSUES IN THE REPORT

- 2.1** The Review Panel, which produced the IREP, was given the task of advising on "...*the need to realign existing policies, or devise new policies, in order to meet the Executive's goal of halving the private sector productivity gap between Northern Ireland and the UK, excluding the greater South east of England, by 2015*". The requirement was that they would produce evidence-based recommendations designed to strengthen the economy and bring living standards closer to the UK average, with a specific focus on DETI and Invest NI and the effectiveness of their policies and programmes in achieving that aim.
- 2.2** While acknowledging the "...*comparatively strong performance...*" of the Northern Ireland economy, in terms of both output and employment, and the contributions of both the Department and its main economic development agency, Invest NI, as well as the contributions of the manufacturing and private services sectors, in promoting and facilitating the achievement of the growth achieved, the Review Panel indicates the continuing failure of such growth to raise living standards to an acceptable level (achieving only 80% of the UK average). Their analyses is based on the use of Gross Value Added per head as the primary measure of productivity and identifies that, on that specific measure, there is a long-standing and consistent 'productivity gap'; they indicate that such a gap reflects a combination of lower individual sector productivity and over-representation of low productivity sectors, in the Northern Ireland economy, and go on to relate those factors to the lower level of investment in 'Research and Development' and 'Innovation', and also to the comparative shortage of academic and professional qualifications within the work-force here (notwithstanding the superior standards of education in Northern Ireland – but highlighting the loss of graduates to other economies).
- 2.3** Although it recognises that more resources (proportionately) are committed to supporting the economy in Northern Ireland than elsewhere in Britain, the Review Panel, in its consideration of 'current policies and expenditure', points to a number of issues and concerns pertaining to the expenditure involved, over the review period (essentially from 2002 to 2008) viz. that:
- Invest NI and DETI are currently operating far too many support programmes and the main mechanism used (Selective Financial Assistance – SFA) is likely to be reduced as a result of EU Regional-aid rules, with effect from 2013, if not sooner; [*That may not be an entirely valid assessment, since there are several mechanisms through which that sort of support could be channelled, in the post-2013 situation; they*

Response to "Independent Review of Economic Policy" (The Barnett Report)

include a possible extension of the de minimis rule (under which €200,000 could currently be awarded over three years) and there is a need to negotiate such a clause, in order to maintain such benefit for companies based in Northern Ireland.]

- Invest NI's support for the manufacturing sector has not produced the desired (or anticipated) impacts on productivity performance;
- unlike in other parts of the UK, regional aid in Northern Ireland applies to the entire area; it is geographically more restricted in Scotland, Wales and the North-East of England, all of which have relatively weak economies;
- under the PfG, Invest NI has responsibility both for improving productivity and for tourism;
- Invest NI's current Corporate Plan, and that of DETI, places high emphasis on 'innovation', 'technology' and 'R&D' and now includes specific targets for productivity and employment, covering export performance, the wage and salary contribution of inward investment companies and the level of expenditure on R&D (differentiated between SMEs and larger businesses);
- since 2002, expenditure on 'enterprise', 'innovation' 'R&D' and 'trade promotion' accounted for only one-quarter of total support awarded by Invest NI, with a further 10% being spent on attracting new businesses to the area; by comparison 40% was allocated to expansion programmes in established businesses, with only 15% being in support of new job creation;
- ten firms received 30% of the total support and half of the total went to thirty companies, in most cases involving repeat offers - most of that support was concentrated in a small number of mainly urban areas;
- the level of venture capital activity, in Northern Ireland, has been very low – partly, in the opinion of the Review Panel, because of the relatively easy availability of grant-aid;
- there is a cost disadvantage to Northern Ireland businesses, by comparison with the rest of the UK, in terms of both energy and communications infrastructures (though that is, allegedly, decreasing) and there will be a need for improved infrastructure to harness the potential of wind energy (which will be generated mainly in the West).

The report does not attempt to quantify the likely impacts of the changes in the current strategies of DETI or Invest NI – rightly so, since it is an evidence-based study; neither does it address the potential of natural resources, but places great emphasis on skills and education.

- 2.4** However, the Review Panel does provide an assessment of the impacts being created by current policies. It accepts that Invest NI has been successful both in facilitating the creation of new jobs and safeguarding existing ones, and that it has been mainly

Response to "Independent Review of Economic Policy" (The Barnett Report)

responsible for attracting a relatively high number of inward investments (by comparison with the UK average, or on a *per capita* basis). Nevertheless, it is critical of the quality of some of those achievements, indicating specifically that, apart from the ICT sector, many of the jobs so created pay relatively low wages, are manufacturing-based and produce relatively low levels of R&D or innovation – and that these negative outcomes are more pronounced in projects involving expansions of existing businesses. Moreover, it indicates that the cost per new job created has been higher in local businesses than in businesses owned by external parents, though that is reversed in the case of jobs which have been ‘safeguarded’. [*This latter point appears to imply that external companies carry greater ‘clout’ when it comes to negotiating support for the safeguarding of jobs than do local businesses, presumably because they are, in general, larger.*]

- 2.4.1** By comparison, the study indicates that business closure rates (as measured by the level of de-registration for VAT purposes) is lower in indigenously owned businesses than in externally owned businesses. [*Note: Later in the report, the Review Panel raises the issue of ‘culture’ and the lower rate of closure of indigenous businesses probably points to their higher level of commitment to ‘community’ and ‘place’ as part of that ‘culture’ – though that issue is not addressed directly in the report.*] It also quotes a third party study as indicating that the historically low level of ‘early stage entrepreneurial activity’ in Northern Ireland has recently exceeded the UK average among young people, but not in the cases of the elderly, females and (significantly) graduates. It suggests that as much as 70% of new projects would have, eventually, proceeded without grant-aid (i.e. that they failed to meet the ‘additionality’ criterion), but that grant-aid boosts employment in a significant proportion of cases involving indigenous companies – albeit at a relatively high cost.
- 2.4.2** Business expenditure on R&D among Northern Ireland companies has traditionally been less than 40% of the UK average, just over 40% of the Irish average and less than 25% of the average in most European countries (and as low as 15% on some comparisons); the report echoes the suggestion in the MATRIX report that industry-led innovation should be promoted through co-operation between business, academia and government. Ultimately, the report concludes that there is little evidence that SFA from Invest NI has contributed to any significant improvement in productivity.
- 2.4.3** The report is replete with references to the need for an increase in the level of third-level research and to the need for an increase in the capacity of universities to undertake the research required to promote higher productivity within the Northern Ireland business sector. The precise mechanism(s) through which that potential could be realised is somewhat vague and aspirational, but in its analyses of other locations, there is some evidence to support the views expressed in regard to the value of education and appropriate skills.

Response to "Independent Review of Economic Policy" (The Barnett Report)

- 2.5** Not surprisingly, the IREP Panel finds that the individual firm, or company, and its leadership are the ‘key drivers of economic growth’ and that HM Treasury’s ‘drivers of productivity’ (investment, skills, innovation, enterprise and competition) fail to prioritise exporting and inward investment, because they do not weight the drivers appropriately or specify the processes linking them; by comparison, R&D expenditure, by promoting innovation and ‘business sophistication’, is deemed to produce improvements in productivity. Correspondingly, the Review Panel finds that the PfG’s goal of improving labour productivity is only a partial solution, which should be complemented by increased ‘capital productivity’. It, therefore, concludes that any policy-driven solution should be tailored to regional needs, but that economic policy generally should not be developed in such a way as to influence the location of investment or affect migration patterns within a region; secondly, it emphasises the centrality of ‘the dynamic entrepreneurial firm’ (which is not defined) and its internal processes for encouraging innovation, network development and collaboration (with other firms or academic institutions etc.), in promoting growth and productivity; thirdly, it identifies export demand as essential to sustained growth and suggests that it could be based on ‘man-made’ resources (though natural resources would also be advantageous) and accelerated by inward investment, with ‘skilled imitators’ being possible replacements for ‘skilled innovators’ (though it displays an overall preference for the latter).
- 2.5.1** Very importantly, the Review Panel suggests that viewing innovation as a “...*wholly technological phenomenon...*” is misplaced and that it should be viewed “...*as a business and commercial process*”; it should incorporate process innovation, marketing innovation and organisational innovation, as well as the more obvious product innovation (which is normally implied when R&D is being considered).
- 2.5.2** While it identifies ‘skills’ as necessary for innovation and productivity improvement, it (rightly) claims that ‘families’ are an important source of skills – possibly at least as important as educational or training establishments. In terms of ‘enterprise’, it suggests that a ‘volume based approach’ (i.e. focussing on the numbers of new starts) is unlikely to be as beneficial as a focus on removing impediments to business growth.
- 2.5.3** In relation to ‘infrastructure’ (the lack of which is clearly an impediment to business growth and even to business starts), the Review Panel (apparently somewhat ambiguously, if not reluctantly) accepts that the availability, or not, of public infrastructure has a key role in improving the attractiveness of different locations to mobile investment – particularly for foreign owned companies and others which are capital intensive. It also identifies access to finance (especially to equity finance, through venture capital, which is in short supply in Northern Ireland) as a key component of infrastructure. Finally, in this area, it identifies planning policy and

Response to "Independent Review of Economic Policy" (The Barnett Report)

access to property as key infrastructural elements and considers that the former appears not to be applied in favour of business growth and development in Northern Ireland, at present.

2.6 A core component of the Review Panel's deliberations and findings is a comparative analysis of 'best practice', in either developing indigenous businesses, or attracting mobile inward investment, in a selected number of locations (in North America, Northern Europe and the Far East, as well as the Republic of Ireland) with good track records in innovation, high productivity and investment in research and development. The core messages from that analysis are as follows:

- (i) successful regions have clear strategies, based on on-going diagnoses of their strengths and driven from the top;
- (ii) productivity transformation is a long term process, involving 'intense focus on attracting, retaining and embedding' anchor institutions, whether domestic or external (with the right focus, either can be made to work successfully);
- (iii) innovation and R&D are key drivers of economic success and are most successful when they involve co-operation between firms, or between an individual firm and another institution (e.g. an academic one); exporting is also an important driver;
- (iv) successful investment agencies focus on the needs of business i.e. they are pro-business, responsive, flexible, fast moving and non-bureaucratic; and their staff are proactive, 'solutions-based' and entrepreneurial.

Two of the most important outcomes from that part of the study are that investment in R&D pays dividends, whether it is undertaken by external investors (FDI) or indigenous companies, and that co-operation with various educational institutions contributes to the probability of success.

2.7 The main conclusions and recommendations from this report, which are of direct interest to Fermanagh's potential industrial policy and achievement, are as follows:

- Invest NI should cease to have 'clients', instead working on a broad basis to promote exporting, innovation and investment in R&D, and supporting those activities;
- grants for business expansion should be phased out and the number of programmes operated by Invest NI should be reduced significantly; support for training etc. should also be reduced;

Response to "Independent Review of Economic Policy" (The Barnett Report)

- future assistance should concentrate on supporting innovation and R&D; its support for exporting should become more professional; and any other supports should be in the form of subordinated loans or equity stakes, rather than as grants;
- tourism should no longer be part of Invest NI's realm of interest; and it should also disengage from direct involvement in venture capital funds
- a portfolio of innovation policies, not constrained by existing restrictions, should be developed; they should incorporate the creation of a new entity, independent of the university sector, for commercially-based research, as well as a re-focussing of research in universities and the public sector to meet the needs of both local businesses and inward investors, and with an increased emphasis on the service sector;
- the focus of future educational policy, as it applies to economic activity, should be on higher technical and professional qualifications, promote higher skills in the scientific, technical, engineering and mathematical areas, and facilitate greater emphasis on innovation-led research and development;
- investment in infrastructure should be geared towards maximising future economic performance and should include a focus on energy conservation, and the benefits of new telecommunications connectivity should be exploited.

A series of other recommendations was also produced; they relate mainly to the internal operations of Invest NI and DETI, including issues around policy development, policy delivery, policy performance and its measurement (and the allocation of resources to each of them) as well as the need for changes to the appraisal of projects by public sector bodies to reflect the added uncertainty involved in R&D and innovation; they also cover the need for further research into the potential contribution of the social economy.

2.8 Overall, the Independent Review of Economic Policy is robust, focussed, relevant, well-researched and well-presented; given the probability of changes in the application of the European Union's 'state-aid' rules post-2013, it is also timely. The rest of this report contains Fermanagh's response to that study. Fermanagh District Council and FEDO would support most of its content.

3.0 THE OUTCOMES FROM THE CONSULTATIONS

3.1 As indicated earlier, the preparation of this response included a series of consultations with parties interested in economic development, including a good cross-section of Fermanagh-based businesses; in addition, some unsolicited, written responses were received and are taken into account. The following paragraphs provide a very much abbreviated summary of the issues raised during that process.

3.2 **The overall assessment of the report by local businesses (in Fermanagh), both large businesses and SMEs, was that there was a high risk that the overall process involved in the IREP had gone over the heads of the business community, failed to take their perspective into account in either the analysis or the recommendations and, effectively, had sidelined those who create economic activity, employment and wealth, in an academic analysis of their sector.** There was a palpable anger at some of the recommendations, based on a view that at least a few of them were deemed to have a 'Belfast-centric' focus, with greater potential for adverse effects on the more remote, border areas of Fermanagh. In particular, there was annoyance at the failure of the report to take cognisance of the effects of inadequate infrastructure in such areas, with both energy and telecommunications being identified as reflective of that failure, as was the roads network and the distance from any centre of university level education.

3.3 Against that background, the following specific issues were raised and had broad acceptance across the spectrum of consultees (many other issues were raised by individual consultees, but were not mentioned on a sufficiently consistent basis to justify being deemed to be commonly held – they are not included in this summary):

(i) On the basis of data released to the Assembly, Fermanagh has, on a *per capita* basis received less than 75% of the average Invest NI support for the entire electoral areas in Northern Ireland: If the electoral areas outside Belfast, which are within the Greater Belfast 'travel-to-work' area are excluded, the percentage is even lower. Given the number of new businesses in Fermanagh, the consultees were virtually unanimous that this situation seems both inequitable and unacceptable – and they feared that the new proposals would probably make that situation even worse.

(ii) For those who have no job, low-paid work, whether in call/contact centres (as mentioned specifically in the report) or elsewhere, is very acceptable: The comment in the report was considered 'elitist' and failed to reflect the need 'on the ground' for employment, in order to sustain personal pride, confidence and a sense of

self-worth; 'any job is better than no job' was clearly the dominant view and the creation of jobs, even where productivity is lower than desired, is valuable in its own right, in both social and economic terms, and in terms of community viability too.

(iii) Fermanagh has a high rate of business-starts, resulting in a large number of micro-businesses, but the whole area of micro-businesses has been ignored in the report: Fermanagh has one of the highest rates of business-starts in Northern Ireland, though it was accepted that many of them could not be categorised as 'high productivity' in the way in which that term is used in the report; there was a very trenchant view that the local enterprises form the basis for future 'growth' businesses in Fermanagh and that, in a County which has lost most of its former inward investment companies (well over one thousand jobs lost in externally-owned business alone, in Fermanagh, between November 1998 and April 2001), the track record of growth and long-term tenure is far better for indigenously-owned businesses than for foreign-owned ones; the report completely fails to recognise that and would appear to offer more support to the 'fly-by-nights' than to those who are more likely to 'stay the course'.

There was a very strongly-held view that locally-owned small businesses should be supported and helped to expand – that they have a greater need for support than larger businesses and that, with properly structured support, some of them would eventually grow to the point where they would be in a position to commence exporting, invest in R&D and undertake innovation. To these consultees, that is still an appropriate role for Invest NI and/or DETI.

(iv) Cessation of the Selective Financial Assistance scheme and/or of the Business Expansion Programme would be enormously detrimental to business prospects in Fermanagh: These programmes have proved beneficial in the past; several consultees described instances where such funding was the catalyst for growth, which led to exports and later to product and process development. According to interviewees, these grants have (admittedly only in a small number of cases) acted as the stimulus for exports, some (small level of) R&D activity, some product development and some process development, as well as considerable investment in training, which (it was claimed) led to exports and growth. Given the financial circumstances within which many of them operate at present, in the absence of a cash-based incentive, much less such developmental investment will be made in the future. Effectively, consultees were arguing that innovation and R&D is best promoted by linking it directly to 'commercialisation', which has long been stimulated by SFA. For that reason, there was major opposition to the proposed cessation of these programmes and an expectation that any potential for fruitful relationship between the private sector and the public sector would be reduced as a result. In that context,

Response to "Independent Review of Economic Policy" (The Barnett Report)

some consultees argued for a derogation from EU rules in respect of the potential state-aids implications of such grants and for the production of a number of case studies to indicate that SFA had, in fact, achieved some of the consequences proposed in the IREP, for the transfer of support from growth to innovation or investment in R&D. There were suggestions that, in the current economic and financial environments, many business people were considering whether to continue in business; support for growth, including for investment in capital expenditure, might make a difference to such people and avoid a 'flight from entrepreneurship'.

The contribution of these supports to micro-businesses was emphasised repeatedly. It was clear that the development of micro-businesses depends on such supports to a much greater extent than applies to larger, more established businesses. Without such support, virtually any potential for innovation or R&D investment would be eliminated, since these businesses have little capacity to integrate R&D, or innovation, into their normal business activities. It was suggested that, for micro-businesses in particular, linking innovation and training would probably generate a high dividend.

(v) Some consultees took exception to the suggestion, in the IREP, that Invest NI had supported 'plant upgrades': There was a consistently strong opinion that any support for such upgrades was almost entirely in the context of either innovation, product development, or (most commonly) process development; to that extent, they consultees argued that the Review Panel was factually wrong – at least in so far as support to Fermanagh businesses was concerned. (One consultee indicated that he had to take-out a mortgage on his home to fund a process development project, because it was interpreted as a 'plant up-grade' – which, he claimed it was not.)

(vi) There is considerable confusion around Invest NI programmes – there are too many (as IREP suggests), they are too bureaucratic and many small companies are incapable of engaging with them: Clearly the complexity and bureaucracy associated with these programmes is off-putting to many businesses, which, with limited managerial resources, do not have the time or the capacity to commit to what would be needed to meet the requirements of the different programmes – it was even suggested that any company seeking such support would need to have a "...resource float..." (meaning human resources) to succeed in getting support. The consequence is that many in the SME sector have not been availing of them as fully as their potential for development would have justified – to that extent, there appears to be considerable untapped potential in those companies.

(vii) The combination of the economic down-turn and the bureaucracy involved in doing business in Northern Ireland is likely to have a seriously detrimental effect on Northern Ireland's entrepreneurial base: This view – that the entrepreneurial culture which is found in the public sector in the most successful

Response to "Independent Review of Economic Policy" (The Barnett Report)

economies, is absent in Northern Ireland - was expressed very forcefully. The burden of reporting and form-filling (audit, compliance and the application of EU rules to a level, which is far more arduous on business than applies in most of Mainland Europe), the bureaucracy involved in getting any form of constructive contact with the public sector and the potential stigma of failure, are currently combining to create an environment in which competitiveness is being stifled, entrepreneurship is being blunted, motivation is being eroded and investment is declining; examples of bureaucracy quoted included some in which the process of applying for a grant and getting through the bureaucracy took up to a year. There is a need to reinstate some motivational rewards - providing capital grants for investment in process development and/or exporting was one widely-acclaimed suggestion - and the removal of SFA, at the behest of European rules, will have exactly the opposite effect. (Note: There was a very strong view that governments, all over Europe, are 'competing' to support their core sectors, while, in Northern Ireland, there is a proposal to get rid of SFA!).

(viii) The report fails to recognise the contribution of the Local Enterprise Agencies to economic growth and productivity: While North Carolina was praised for its business support network, there was no mention of the fact that similar support is available to micro-enterprises and others through the LEAs. They have frequently been cited as examples of best practice, but are not acknowledged in the IREP.

(ix) There was support for the establishment of a pilot 'innovation centre' in Fermanagh: The IREP recommended the establishment of such centres 'on a pilot basis'. The view among Fermanagh businesses was that, given the County's peripherality and other socio-economic disadvantages, one such centre should be based in Fermanagh and linked to South-West College. However, there was some disappointment that Fermanagh is so remote from any university with a proper research, innovation or product or process development facility. That would have to be addressed, if the IREP recommendations were to be implemented.

(x) Several consultees were not convinced that greater integration of DEL and DETI would make any difference: There was particular criticism of the balance of employment within DETI (as quantified in Table 8.1, page 150) of the report; the aggregate of 57½% of the department's staff being in non-front-line activity (business regulation and HR and central support) was considered ridiculous and no integration of departments would change that. The rationalisation of DETI's staff was considered a much more important issue.

(xi) Some consultees considered that further research into the impact of these proposals on Fermanagh's economy would be advisable: Specifically, it was suggested that a series of case studies should be prepared to indicate, in concrete terms, the potential impacts (positive and negative) on the County's economy, though

Response to "Independent Review of Economic Policy" (The Barnett Report)

there was a clear expectation that any such research would demonstrate an overall negative effect. Such case studies are not incorporated into this report, but can be made available on request.

(xiii) There was some concern that the report's emphasis on 'imitation' would be perceived (by civil servants) as producing displacement and waste of resources: The core of the concern appeared to be that established businesses would suffer and the resources and efforts invested in building them would be wasted. Specifically, there was a concern that civil servants would reject most of such applications, on the grounds of displacement of existing facilities; one example of such an attitude, quoted during this process, was the case of new airport facilities being opposed by civil servants on the basis that they would displace existing services in Britain.

(xiv) The County's business community are unhappy at the consistent failure to include representation from Fermanagh on any of the main bodies responsible for economic development: As one of the parts of Northern Ireland where traditional primary manufacturing is still hugely important to economy and for job creation, the consultees felt strongly that this geographic area and this area of the economy was consistently under-represented on such bodies and that its case was not being presented with sufficient vigour.

(xv) The report fails to acknowledge the problems in border areas, of competing for business with an adjacent area, in which businesses have significant fiscal advantages: The core of the argument produced on this issue was that SFA was, effectively, a way of 'levelling the playing field' in the competition with the Republic of Ireland for business investment, but that the Review Panel had ignored this reality.

However, by far the biggest complaint during this entire consultation process was in relation to one issue on which there was absolute unanimity viz.

(xvi) The report completely fails to take account of the inadequacy of the basic infrastructures in Fermanagh: There was unequivocal support for the view that the authors of the report appeared to be totally unaware of the following facts:

- the energy supply has been inconsistent/volatile and inadequate in this County, over a very long period, and NIE has failed the people of Fermanagh, especially its business base and its manufacturing sector; energy is over-priced by comparison with competitors in Mainland Europe or Britain, and 'outages' have undermined the manufacturing potential of Fermanagh for decades;
- the County's telecommunications infrastructure produces slow transmission, with little prospect of major improvement under the current set of plans; there is a need for the extension of the Saturn Ring (or some other broad-band connection) to Fermanagh;

Response to "Independent Review of Economic Policy" (The Barnett Report)

- the main roads access to Fermanagh and many of its internal roads are grossly inadequate for a modern productive economy.

These three issues have all been the subject of previous reports and debates, and there is currently one very contentious example affecting a business in Fermanagh, which has received the unequivocal support of the members of Fermanagh District Council. The predominant view among consultees was that, in suggesting that infrastructural investment and policies related to infrastructure should be implemented in such a way as not to influence the location of investment, this report was effectively accepting a lower standard of infrastructure in rural areas, including all of Fermanagh, with reduced potential for both inward and indigenous investment; in that respect, the report was seen as ‘...*completely failing*...’ the people of this County (and of other peripheral and disadvantaged areas of Northern Ireland).

- 3.4** The foregoing views emanated entirely from the consultation process (including the written submissions received as part of that process). They indicate clear and real concerns about the implications of the IERP report for the future of Fermanagh’s economy. The following sections provide summaries of the consultants’ conclusions, adapted to take cognisance of the views of the commissioning organisations; they are divided into the three sections indicated in paragraph 1.2 above.

4.0 CRITIQUE OF THE UNDERLYING ANALYSES

4.1 The following paragraphs provide the consultants' and the commissioning bodies' views on the analyses used in arriving at the conclusions and recommendations in the IREP. As indicated at the outset of this report, they accept the validity of the broad thrust of the analyses undertaken in the production of the Review. Nevertheless, there are a small number of areas on which they would wish to comment.

4.2 FDC and FEDO accept that the Review Panel was given the task of devising policies designed to "...meet the Executive's goal of halving the private sector productivity gap between Northern Ireland and the UK...". They also accept that, in principle, the use of Gross Value Added per capita is a valid measure in undertaking that task.

However, they would wish to make the following points, in relation to the overall analyses undertaken and reported by the Panel:

- (i) **Productivity:** In any set of realistically valid comparisons, there are some situations, in which Gross Value Added needs to be adjusted to discount for factors which have important implications for the validity of that measure as a basis on which to quantify the comparisons; for example, FEDO or FDC do not accept that value added as a result of monopolistic pricing should be included in a calculation which suggests that public utilities are significantly more productive than private sector organisations; the figures in Table 2.1 do not, therefore, give an accurate view of the relative performance of the sectors.

In Fermanagh, there is a high level of awareness of the inefficiency inherent in the performance of some of the public utilities; 'electricity' is a prime example – NIE exploits and is allowed to exploit its monopoly position, charging higher prices than would be achievable in a competitive market, whilst failing to provide a consistent service across all of Northern Ireland, with the more remote areas, including virtually all of Fermanagh, being particularly disadvantaged in terms of:

- the consistency of supply, and
- the need to fund the necessary infrastructure to improve that supply and allow for the introduction of wind-based energy into the system.

From that perspective, it is impossible to reconcile the assertion that public utilities are highly productive (even in relative terms), given that some of them 'cherry-pick' locations for high investment, whilst providing the absolute minimum consistent with their public service remit, in other places.

Similar problems exist with telecommunications, especially broadband (some of which are raised peripherally in the report), with water and waste etc. The introduction of competition into the telecommunications sector has not been linked to targets for the roll-out of broadband, with the result that market failure occurs in rural areas like Fermanagh (in this and other services) because of the low return on investment from such expenditure in sparsely populated areas. There should be an explicit regulatory role for Government in ensuring a reasonable baseline provision of all core services.

Secondly, FDC and FEDO also have, on the basis of their members' experience, major difficulty with the high productivity statistics awarded to 'public administration' and 'health' – especially, by comparison with 'construction' (in which the Fermanagh work force is recognised nationally and internationally as being very highly productive) or 'manufacturing' in which Fermanagh has a small number of highly successful, highly profitable companies, with large export revenues and reasonably regular new product introductions and state-of-the-art processes. It is difficult to see how Gross Value Added has been calculated for such services; that problem has the potential to undermine the validity of using such a statistic as the primary basis for fundamental changes to economic policy.

Accordingly, the view reflected in this report, as educated by the consultees, is that Table 2.1 does not provide an accurate reflection of real productivity and that the calculation of relative productivity is therefore skewed.

- (ii) **Economic Policy and Location:** The Panel's suggestion that economic policy should not be driven by a desire to "... influence the location of investment or affect migration patterns within a region ..." ignores the need for 'balanced regional development' as proposed under the 'Lisbon Agenda', thereby producing a bias against areas where economic and/or physical infrastructures are weak, as a result of lack of investment; indirectly (and probably unwittingly), the Panel's proposals would thereby create a situation in which the weak get weaker and the strong gain even more advantage from their superior infrastructural and locational positions. There is a need for a reasonably equitable provision of infrastructure, before that aspect of the Panel's analysis can be sustained under any form of fairness. As indicated above, energy is one area where the inadequacy of infrastructure is a crucial deterrent to the development of new businesses; locations with less industrial density have their power transmitted at lower voltages, resulting in a less stable and weaker supply. In this aspect of infrastructure, there is a need for an overall review of regulatory standards, as they affect rural areas, in terms of

Response to "Independent Review of Economic Policy" (The Barnett Report)

both level and consistency of supply; the Energy Regulator had indicated a proposal to undertake a review of whether statutory and regulatory standards in relation to the quality of supply are reasonable, but, more recently, it has been suggested that 'resource limitations' may preclude the implementation of that proposed review.

There is a second aspect to the economic implications of location. In border areas, close to another economy with lower tax rates, there is a huge incentive to transfer business to the Republic, in the absence of continued SFA; part of the original role of SFA, from the perspective of the business sector, was to offset those disadvantages and make investment in Northern Ireland more attractive to 'border businesses'. Even with programmes such as Trade Links (funded by INTER-REG) and Micro Trade (funded by InterTradeIreland), there is still a need for some form of Financial Assistance for exporting and micro-trade in areas of weak economic infrastructure. This is of particular importance to Fermanagh, with its consistent high rate of business-starts, its 'peripheral' location, its poor 'inter-connectedness' with the main markets and its comparatively weak physical and economic infrastructures. *[As a reflection of this, in the last Annual Report from Invest NI, for which such figures were provided (2003-04), no potential investors were brought to this Council area by the agency, and only two were taken to visit it over the three years 2001-02, 2002-03 and 2003-04. Unfortunately (but predictably) these data (on the geographic distribution of visits by potential inward investors) are no longer published by Invest NI.]*

- (iii) **Micro-Businesses and Local Government Involvement:** Again probably unwittingly, the Review Panel virtually dismisses both the importance of the micro-business sector as a contributor to the potential for future economic growth and any possible role for local government (and/or agencies within the broad local government system) in the promotion of local micro-businesses; in the past, DETI and Invest NI have failed to provide adequately for this segment – yet the report suggests the creation of a small unit within Invest NI to promote and develop this sector.

The Local Enterprises Agencies (with the one in Fermanagh being among the very best in Northern Ireland) have, with considerable support from the Local Councils, contributed greatly to both job creation and business growth, and some of their client businesses have been significant catalysts in improving productivity, creating jobs, building exports and promoting investment in product and market development; that should not be ignored.

- (iv) **Inward v Indigenous Investment:** The view in paragraph 2.20 that "*The major long-term component of investment which drives growth in NI is inward*

Response to "Independent Review of Economic Policy" (The Barnett Report)

investment within export sectors" is, if not logically inconsistent with the finding (in the same paragraph) that inward investment accounts for about 10% of job creation, at least suggestive of a strong prior bias in favour of inward investment against indigenous investment and the latter's potential and actual contributions to exports, as well as to product development, over the years. Job creation cannot be sustained in the absence of some reasonable level of productivity, but the contribution of the indigenous sector is consistently down-played in the report. Fermanagh's economy lost four major inward investment projects, costing well over 1,000 jobs, over an eighteen month period, but it is still strong, as a result of the investments by a small number of local businesses, which are totally committed to this area and have proved capable of competing successfully in both domestic and export markets (including in the British market, where productivity is ostensibly higher).

- (v) **R&D Activity:** FDC and FEDO accept the view (paragraph 2.24) that the level of business expenditure on R&D and innovation is unacceptably low in Northern Ireland; that is partly attributable to the lack of scale in many businesses in the region, and, inevitably, Fermanagh's high quotient of micro-businesses generates particularly poor statistics, in that respect. However, this County's business community is strongly of the view that the level of investment in both process and market development (and to a lesser extent in product development too) is much higher than has been acknowledged in this report. If the position in Fermanagh is reflective of the wider Northern Ireland situation, the level of investment in product and process development (though clearly not in R&D and probably not in innovation either) is understated in this analysis. In any event, these data suggest a need for a specific fund to support investment in R&D and innovation, within the micro-business sector, if that sector is to survive and become the foundation for future SMEs.

Apart from these five areas, FDC and FEDO accept the validity of the core underlying analyses conducted, or commissioned, by the Review Panel. In particular, the Board welcomes the more positive comments in the final paragraphs of Chapter 2 (paragraphs 2.35 to 2.38) and some of the other positive comments in the report.

- 4.3 Apart from the foregoing points), the commissioning organisations accept the analyses underlying the Review Panel's conclusions. Their views on those conclusions are set out in the next section.

5.0 CRITIQUE OF THE MAIN CONCLUSIONS

- 5.1** In relation to the conclusions drawn by the Review Panel from its analyses of the Northern Ireland economy and current policies and their impacts, the members of FDC and FEDO and the wider business community of Fermanagh (as reflected by the consultees) are supportive of most of the conclusions reached and believe them to be well founded and supported by evidence; in relation to a relatively small number, they have serious reservations. The overall attitude to these conclusions is set out in the following paragraphs.
- 5.2** FDC/FEDO welcome most of the main findings in Chapter 3, though they do not hold such a jaundiced view of the effectiveness of Selective Financial Assistance, which, their members believe, has had a major impact on both job creation and the growth of a small number of very successful indigenous businesses. They agree with the Review Panel on some other issues raised in this Chapter – specifically, on its comments in relation to venture capital, the desirability of removing tourism from Invest NI’s realm of responsibility (provided another ‘home’ is identified and funded to support that sector), the various issues associated with the planning process, the desirability of broadening Invest NI’s client base to include the service sector, the need to reduce the number of support programmes operated by Invest NI and DETI, and the comments on the social economy; they also agree with the implied suggestion that representation from Invest NI on the board of client companies is undesirable, whether it has contributed loans, grants or equity.
- 5.2.1** However, they disagree fundamentally with any implication that a 20% differential in electricity prices (exclusive of related infrastructural costs, which are passed on to customers, in areas like Fermanagh) is acceptable; and they are concerned that the current telecommunications infrastructure, in Fermanagh, is of a lower standard than that elsewhere in the region, with no concrete proposals for any reduction in that disadvantage – and that this appears to be acceptable to the Panel! [*Note: There is a Government commitment to expanding the current universal service obligation, to include broadband access, but it is, as yet, unclear, whether this extends to Northern Ireland.*]
- 5.3** In the view of the commissioning organisation (and ignoring any argument about the need for SFA to compensate for locational or other disadvantages), the evidence that the additionality from SFA-supported projects is lower than that from innovation and R&D is not demonstrated conclusively, though such a conclusion would appear intuitively logical; on the other hand, they accept the indication of lower closure rates among indigenous companies, on the basis of their knowledge of the resistance to

Response to "Independent Review of Economic Policy" (The Barnett Report)

closure among locally-owned business, for a variety of reasons, including an unwillingness to accept perceived 'failure'. However, they feel that these two issues have not been treated in an equally balanced fashion by the Review Panel. In the view of the commissioning organisations, the former assertion has been used as the primary basis (though not the sole basis) for recommending the abolition of Selective Financial Assistance, whereas the latter of those two aspects (the 'culture', among locally-owned businesses, of fighting to survive) should provide a more appropriate base from which to promote growth and development, provided there was adequate access to the types of assistance needed to promote (mentoring and other forms of advice, in particular), and be the catalyst for, increasing productivity and the viability and sustainability of new businesses; that should, and probably would, provide a basis for developing new criteria designed to re-direct SFA to achieve better outcomes, including higher productivity, with greater potential for higher economic pay-back, but the Review Panel missed the opportunity to explore the potential of such a change of direction or emphasis – in FDC's/FEDO's view, SFA could profitably be dedicated to that sort of activity, rather than being ended peremptorily, on the basis of 'evidence', which could hardly be described as scientifically, or statistically, conclusive.

- 5.3.1** Secondly, as noted in that same section, the 'fear of failure' and the low level of graduate involvement in entrepreneurial activity, in FEDO's experience, owes much more to concerns about the culture of excessive governance and bureaucracy in Northern Ireland than to any other factor. The scale of that bureaucracy is demonstrated graphically by the analysis of DETI employment, by role, in Table 8.1, which is seen as symptomatic of warped priorities, with almost 60% of staff being employed in functions which make very little, if any, contribution to the growth and development of business, much less to any effort to promote higher productivity.
- 5.3.2** FDC and FEDO have particular concerns about some of the implications of paragraphs 4.52 and 4.53 of the IREP. The view that Northern Ireland could be regarded "*...as a competitive location for much of manufacturing and services*" (apart from "*...some activities with high transport costs...*") ignores the fact that a very high proportion of the output from manufacturing activity in Northern Ireland has high transport costs – most building materials, much of the food production sector (which is now less important within the Fermanagh economy than it was in the past, but still cannot be ignored), almost the entire engineering sector (in which Tyrone alone has a very high share of total UK production in areas like materials handling equipment and quarry plant etc., whilst a Fermanagh company has a high share of the structural steel sector) fall into this category. Some of these are also sectors which have been to the forefront in terms of innovation, product development and process development – not just in UK terms, but even in international terms. In their view, the Panel's comments

Response to "Independent Review of Economic Policy" (The Barnett Report)

on this issue (and in other places in the report too) reflect a prior preference for academically-based and university-supported research, over product, process and market development, all of which are comparatively common in the traditional manufacturing sectors, which provide good employment and significant exports, even if the GVA per pound of revenue is comparatively low.

- 5.3.3** As far as those who represent Fermanagh are concerned, the Panel's view on that issue is misplaced. FDC and FEDO have a perspective, which is much more aligned to the alternative view presented by the Review Panel in paragraph 5.28 viz. that innovation is not a wholly technological phenomenon, but is ultimately a business and commercial process. Research and/or development, whether prosecuted in a university or elsewhere, is wasted, if it is not properly commercialised (and notwithstanding the assessment of its commercial potential in the grant-application process, much of it is not commercialised), whereas the vast bulk of product and, especially, of process, development, in the manufacturing sector, is commercialised, in practice.
- 5.3.4** Correspondingly therefore, FDC and FEDO do not accept the "...*assumption*..." (in paragraph 4.56) that the totality (or even the majority) of the jobs retained in manufacturing in Northern Ireland reflect the assistance given by Invest NI to that sector; instead, there is a very arguable - even robust - case, which the two organisations would advance and support, that the creation of those jobs reflects the superior efficiency and labour productivity of Northern Ireland-based manufacturing companies and their superior product and process development achievements. If true, that equally defeats the argument in paragraph 4.60, about the low proportion of jobs which were supported, but which would have survived without support - and that leads to some of the later recommendations in the report.
- 5.3.5** The result is that the argument, in paragraph 4.67, that existing policies have not led to convergence towards the UK average is based on an 'apples v oranges' type of comparison; the alternative (and in FDC's/FEDO's opinion, the more realistic) assumption is that Northern Ireland has developed a high level of expertise and sophistication in some of the more traditional sectors of manufacturing (including some which are perceived as 'dirty' and have been abandoned by production companies in other parts of the UK). Those businesses may not have high margins, but they provide employment for large numbers of workers in rural areas and for 'trades-people', many of whom have comparatively low levels of educational attainment. To jettison those businesses and their employees in the interest of some economic 'holy grail' of a productivity measure based entirely on GVA *per capita*, would be a mistake; instead, they should be supported - even if that is on a more selective basis than has been applied in the past - and support should not necessarily

Response to "Independent Review of Economic Policy" (The Barnett Report)

be restricted to 'once only', if good ideas for development (including exporting, product development, imitation and process development) are to be implemented.

- 5.3.6** Ultimately, those who represent a Fermanagh-based view would contend that, in identifying the low level of business expenditure on Research and Development in the manufacturing sector in Northern Ireland, the Review Panel has failed to recognise that much of the primary manufacturing which occurs in Northern Ireland, especially in the more rural areas of the West and South West, requires very little research (though much of it involves 'imitation' with an element of product or process improvement to meet market developments) and that a significant proportion of the expansion proposals, which were supported by Invest NI, had a large 'process development' or 'market development' component to them. In that respect, the Review Panel appears to have underestimated the 'development' element of much of the expenditure incurred by Invest NI client companies and supported by that agency.
- 5.4** The representatives of Fermanagh's business sector may not be entirely in accord with some of the comments of the Review Panel on the 'drivers of economic growth', but, by and large, they accept the broad thrust of the arguments advanced. In particular, they agree with the concept of tailoring economic policy to the needs of a region and to the roles of the (undefined) 'dynamic entrepreneurial firm'; they accept the argument made on the importance of leadership; they acknowledge that, in most cases – especially in the manufacturing sector – foreign-owned companies tend to be more capital intensive; and they recognise the validity of the Panel's comments on the planning and legal processes. They also support, very strongly, the importance of 'imitation' rather than, or at least in parallel with, innovation, and believe that for an economy, which is not very advanced, imitation might be preferable as a driver of development, in the short-to-medium term. Finally, in this context, they see communications technologies and transportation networks as central to the connectivity, which is crucial to economic development and would be fully supportive of the Panel's view of the importance of skills – though they might differ on the precise nature of those skills. Specifically, FDC and FEDO would have a very strong view that more attention should be devoted to the ultimate destination of those being trained in any skill – basic or advanced; secondly, they believe that the Institutes of Technology (ITs) in the Republic (formerly the Regional Technical Colleges) perform a very valuable role, which is not being replicated in Northern Ireland (the consultants visited some of the ITs, as part of this assignment and were impressed by the very advanced technological skills being taught there)
- 5.5** The international comparisons on best practice are extremely interesting and appear well chosen, involving a variety of locations, which used different means of

Response to "Independent Review of Economic Policy" (The Barnett Report)

promoting their economies. The conclusion that successful regions “...have a clear strategy based on rigorous and ongoing diagnosis of existing strengths” is supported by the clear evidence provided in the report; the contention that leadership must come from ‘the top’ is entirely consistent with FDC’s/FEDO’s experience; the long time spectrum involved in improving productivity is intuitively valid. But the most important conclusion from this chapter, in the view of the commissioning organisations, is that “High performing investment agencies have cultures that are responsive, fast-moving and work to overcome bureaucracy” and that their staff are “...proactive, solutions-based and...entrepreneurial in outlook”. The development of such a culture among public sector agencies, in the economic development space in Northern Ireland, would be very welcome.

5.6 The overriding conclusion, in Fermanagh, from the chapter on ‘Organisational Structure, Governance and Advisory Bodies’ is that the current structures are unnecessarily convoluted, poorly implemented and bear little relation to the real needs of business in Northern Ireland, or to economic development at a practical level. The entire system is bureaucratic, over-manned, unfocussed and very conservative in its approach to business development; it needs radical change.

5.7 Essentially, Fermanagh District Council, FEDO and the business community in Fermanagh accept most of the Review Panel’s conclusions; but there are some areas of significant disagreement, as set out above and they have implications for the ‘Fermanagh’ attitude to a number of the recommendations, which is the issue addressed in the next section.

6.0 ANALYSIS OF THE PANEL'S RECOMMENDATIONS

- 6.1** Those representing the business community in Fermanagh find themselves in agreement with much of the content, including most of the recommendations in the IREP, but there are some proposals with which they cannot agree. The main areas of difference between their views and the recommendations of the Review Panel are set out below, and they are followed by two suggestions from Fermanagh's business community and its District Council for alternative, or additional, ways of addressing the core problems examined in the original report.
- 6.2** The single biggest and most comprehensive criticism of the IREP, from the business community of Fermanagh, is its failure to create any form of real connection between expenditure on research, development or innovation, together with public sector support for those expenditures, and the practical commercialisation of whatever new ideas emanate from that expenditure. Businesses are primarily focussed on the commercialisation of ideas and developments; at the risk of over-simplification, businesses perceive universities as tending to focus on theoretical validity and the purity of the epistemological basis for research and innovation; even in its appraisal of projects involving commercialisation, the public sector is seen as focussing on governance, avoiding risk and ensuring value-for-money (which businesses see as unrealistic expectations in any form of research, development or innovation, in which risk has to be an inherent element).
- 6.2.1** Against that background, and in the absence of significant changes in attitudes and the demonstration of practical value from such activities, proposed partnerships between businesses and universities, or businesses and the public sector, or tri-partite arrangements between businesses and both universities and the public sector, are likely to succeed in only a minority of cases, at most, because the partners start from fundamentally different and potentially irreconcilable bases – in both theoretical and practical terms. Therefore, the practical promotion of increased investment as a means of reducing productivity differentials, which are the focus of the IREP, will necessitate both considerable investment and major changes in attitudes towards risk and its relationship to investment; considerable further work is needed in advancing this dimension.
- 6.3** In terms of 'policy development', FDC and FEDO have no issue with the report's recommendations, but they have reservations about some of the recommendations on 'policy delivery'; specifically, they believe that DETI should use whatever provisions in EU legislation would allow it to continue to provide some support for job retention

Response to "Independent Review of Economic Policy" (The Barnett Report)

and job creation (where that is necessary and the same objective cannot be achieved through any other means) beyond 2013, even if the main emphasis of its support for economic development within businesses is on higher productivity and the contribution of research, development, innovation and exporting to raising that productivity, in both absolute and relative terms. Failure to adopt a more flexible approach, than that suggested in the IREP, will decimate Northern Ireland's primary manufacturing sector and eliminate the jobs currently being held by those workers who are less educated, but very competent within their own area of expertise.

- 6.3.1** Secondly, the business community would have major problems with Invest NI or DETI as investors in local businesses, based on their different approaches to doing business and their bureaucratic approach; the provision of loan capital (including redeemable preference shares) would be more acceptable, though there are situations where such capital might not solve the problem(s). Therefore, subordinated loans may be a realistic option, but equity stakes would not be acceptable, in most cases; much more work would have to be done on improving relationships between the statutory and business sectors before that could be contemplated.
- 6.3.2** If alternative arrangements are made available for company training and providing support for the tourism industry, Fermanagh's business community would accept the Panel's proposals on those issues.
- 6.4** The proposed 'portfolio of innovation policies' represents an interesting combination of suggestions:
- (i) The proposed 'institute for commercially-oriented research' (ICOR) is potentially attractive, but not only would it have to be outside the university system, it would have to be independent of the public sector and not subject to interference from it; it should be subject to independent performance evaluation on a two-yearly basis and should have the right to undertake both 'blue sky' and applied research, but its main focus should be on product and process development in support of business; on those bases FDC and FEDO would support it.
 - (ii) The proposal for additional university and public sector research is acceptable, as long as the activities would not be in competition with the proposed ICOR for funding, or interfere with its operations; using those organisations to help in the attraction of inward investment could prove useful, though, clearly, it would not be enough on its own.
 - (iii) There is a danger that the 'industry-led innovation communities' could become 'talking shops', but, if well managed, they could be useful, and would be acceptable to those who commissioned this analysis.

(iv) Statutory sector support for the service sector is long overdue and would be welcomed.

Overall, FEDO endorses the proposals under this heading, but would be wary of too much public sector involvement in their delivery and/or operation.

6.5 Fermanagh's business sector has no strong views on the proposals under 'policy delivery (DETI)', or the related 'policy performance' or 'finance'; neither does it wish to comment on the proposals under 'further research' or 'co-ordination of economic policy', but it strongly endorses the proposed change to 'project appraisal'.

6.5.1 In terms of 'governance arrangements' it considers the current arrangements to be excessively bureaucratic and a potential constraint on successful economic development and business success. However, in principle, it is content to accept the recommendations under this heading, with the following exception:

Instead of establishing a small business unit within Invest NI, FDC and FEDO believe that Invest NI should vacate the micro-business space entirely and leave the local authorities to deal with micro-businesses.

In that context, the two organisations make the following alternative recommendation viz, that:

- **DETI should make a specific allocation of funding to each District Council, of between £1.0 million and £3.0 million *per annum*, based primarily, but not necessarily exclusively, on population, for the express purpose of assisting micro-businesses (those with twelve or fewer employees – including the principals) and new businesses (those which have been established for no more than three years, provided they do not employ more than twenty people) with finance, mentoring, advice and networking contacts, harnessing the knowledge available in other agencies, specifically Invest NI, European Union bodies, InterTradeIreland, export-oriented organisations, banks and industry bodies; each local authority should make an annual return to DETI indicating how funds have been spent and what outputs have been achieved by the supported businesses, distinguishing between quantifiable, financial and economic outputs, and non-quantifiable or social dividends generated as a result of the support provided.**

There are several bases for this recommendation, including the fact that the Local Enterprise Agencies are based on local authority boundaries and have achieved considerable success in promoting new-business-starts (Fermanagh Enterprise Centre has been particularly successful, in that respect); the local authorities have close links

Response to "Independent Review of Economic Policy" (The Barnett Report)

with their business communities and are known to, and trusted by, them; they already have an economic development remit, which is currently constrained by their subordinate role to that of Invest NI; and they have a vast knowledge of the personalities in their areas and would be capable of distinguishing between realistic proposals and those with less auspicious prospects. They are in prime position to promote growth and development, in small local businesses, to which they could devote more time and attention than a centralised agency could afford. Having taken businesses through their birth and growth phases, the local authorities would then hand them over to Invest NI, to take them through the next stage(s)

6.5.2 Similarly, Fermanagh's business and local government sectors accept the Panel's recommendations on 'advisory bodies' and 'planning'; they are particularly supportive of the proposals under the latter heading.

6.6 The proposed emphasis on science, technology, engineering, mathematics and innovation in the syllabi of educational institutions is welcomed. However, there is a slight concern about further focus on technical and professional qualifications, at a time when an unexpectedly high proportion of graduates are not employed in 'graduate' level jobs, as indicated in the report (see paragraph 9.25, which indicates that only 81% of employed graduates were working in 'graduate' jobs, three and a half years after graduation). Whether private sector growth can be stimulated to the point where all graduates are employed in 'graduate' standard work is currently questionable, but some forms of re-skilling or up-skilling would clearly be desirable. In that context, there is a view that **public sector support for a graduate placement scheme should be considered.**

6.6.1 While there is plenty of evidence of a need for management and leadership skills, there is no evidence to suggest that either DEL, DETI or Invest NI, or any permutation of them, is well placed to provide it; neither is there any evidence that a 'Management Masterclass' would create the necessary improvements in productivity. While the aspiration behind this recommendation is commendable, the method(s) through which it might be delivered needs to be reconsidered, with experience and imitation being crucial components.

6.7 The recommendation in relation to 'infrastructure' is probably the most inept recommendation in this entire report (possibly the only inept one), when viewed from the perspective of a 'peripheral' area such as Fermanagh, where infrastructural investment is grossly inadequate. There is a clear focus, in much of this report, on the Greater Belfast conurbation i.e. on the area within a maximum of forty miles radius of Belfast City Centre, where access to necessary infrastructural facilities is readily

Response to "Independent Review of Economic Policy" (The Barnett Report)

available; that does not apply to much of rural Northern Ireland; it does not apply to 'border areas'; and it certainly does not apply to Fermanagh. The explicitly expressed view of the Panel that economic policy should not be designed to influence the location of investment, will, itself, have an influence on location, since the absence of adequate infrastructure acts as a major deterrent to investment; inward investment companies will obviously opt for places with adequate infrastructure; that excludes large tracts of the region, which cannot, therefore, expect to attract inward investment, which the Panel has (rightly or wrongly) identified as one of the principal drivers of productivity improvement and higher living standards. Consequently, FDC and FEDO would suggest a different recommendation in relation to 'infrastructure', as follows:

DETI should immediately commission a comprehensive study of the regulatory responsibilities for the provision of adequate and balanced economic and physical infrastructure across all areas of Northern Ireland, with specific emphasis on ensuring equity of access to infrastructural facilities in rural, border and peripheral areas, and should then act to ensure that any identified deficiencies are rectified as quickly as possible.

Such a study should cover, in particular, energy, telecommunications, transport and access to resources, and any implementation plan should concentrate on ensuring that no area has a significant infrastructural advantage over any other area. The potential for involving the private sector in the provision of such facilities should not be ignored and both quantity and quality should be considered during that study.

- 6.8** The members of Fermanagh District Council and of Fermanagh's business sector welcome the review and the Panel's assessments and conclusions, and agree with the vast majority of them; they are united in their commitment to supporting whatever policies are agreed for implementation, arising from it (subject to the reservations indicated above).