

Jacqui Rose
Department of Enterprise, Trade and Investment
Strategic Planning, Economics and Statistics Division
Netherleigh
Massey Avenue
BELFAST
BT4 2JP
Email: economics@detini.gov.uk

16 November 2009

Dear Ms Rose

Independent Review of Economic Policy Consultation

The IAP is an advisory body established by DARD and DETI Ministers in summer 2008 to advise the administration on agri-food policy in Northern Ireland. IAP is grateful for this opportunity to comment on the Independent Review of Economic Policy.

IAP broadly welcomes the overall direction and supports many of the recommendations contained within the Report. The analysis provides valuable information and evidence about the development of an economic strategy for Northern Ireland. We highlight also in this response however our comments, reservations and grave concerns on a number of the Review's recommendations.

Importance of the Agri-food Sector

The agri-food sector in Northern Ireland is one of the most important contributors to the Northern Ireland economy in terms of revenue and employment. Together food production and processing employ more than

40,000 people directly; the single largest employer in Northern Ireland's private sector. Associated activities such as transport, supply of sophisticated inputs and technical support further increase the scale of the totality of the food industry in economic terms. It is the largest manufacturing sector and is largely export driven. Employment levels are increasing; NI employment in food increased by 2.9% in 2008 while in GB the level fell by 5.6%. 64% of sales are external and there has been a four-fold increase in companies engaging in R&D in recent years.

IAP believes that the agri-food sector has proved itself very resilient to recession over the last 12 months and has shown the largest improvement in productivity, a fact noted in the Barnett report. Over the last 5 years of the current strategic development framework for the food industry there have been some very significant achievements, for example:

- 4 full-time marketing executives in post to promote Northern Ireland food;
- A significant number of market research exercises carried out;
- A dedicated Food Division established in INI along with centralised food start-up activity;
- The activation of a series of projects on supply chain development and logistics;
- EU State Aid approval secured for a Regional Food Programme to assist food promotional activities within the local market;
- The identification of future innovative actions for the food sector up to 2020;
- Extensive research into consumer trends and attitudes towards marketing leading to the *Good Food is in Our Nature* campaign;
- A series of initiatives on innovation within the sector including on packaging and design and quality leading to accreditation for local businesses;
- 60 new graduates entering the industry;
- The development of an MSc in Agri-food business science.

IAP was therefore surprised and disappointed by the limited reference to the sector in the Barnett Report and the absence of any recognition of the unique attributes of the agri-food industry. IAP believes that this has given rise to some recommendations that will deliver few if any benefits for the agri-food sector and moreover have the potential to severely undermine its economic potential.

Positive Recommendations

IAP welcomes first and foremost the recommendation that the economy should remain the top priority of the Executive for many years to come and the recognition of the need to support local businesses which will unquestionably remain the bedrock of the Northern Ireland economy.

IAP would specifically also highlight its strong support for the recommendations to:

- ***provide Invest NI with greater operational freedom and the development of a more entrepreneurial culture and enterprising approach***; IAP agrees that a cultural change, focused on achieving outcomes, rather than in meeting process is a fundamental requirement. Key to delivery of this change is the need to provide greater autonomy and flexibility to Invest NI with DETI having less involvement in operational matters. A change to the approach taken to assess performance and the retrospective attitude taken to risk is also required. The current process undoubtedly makes the system inherently risk averse; the adoption of a portfolio approach to undertaking ex-post assessments of value for money should therefore be pursued.
- ***support DETI in taking a leading role in the development of economic policy, combined with various proposals to improve governance and accountability arrangements, including the establishment of a permanent sub-committee by the First Minister and deputy First Minister, and Executive, to prioritise action on the economy and agree an economic strategy***;

- **take forward with some urgency prioritised actions from the MATRIX initiative;**
- **realign the education system to meet the anticipated demands for higher skills within the economy, especially STEM related skills;**
- **place a greater economic focus in the next Investment Strategy for Northern Ireland**
- **Promoting greater energy efficiency in the private sector.** In addition to this however we must urgently create a framework within Northern Ireland which will enable businesses to exploit the opportunities available in the areas of renewable energy and waste to energy.

Finally, the IAP is fully supportive of the report's recommendations about the planning process. In particular we agree that:

- (i) ***The Planning Service should be given processing time targets which are comparable and competitive with those countries and regions against which NI is competing.*** IAP further believes that pending the implementation of wider planning reforms the Planning Service must seek to deliver greater performance improvements in the assessment of 'major' applications. It is in this category that the Planning Service is falling far short of its PSA targets and ironically it is these projects which will potentially deliver the greatest economic impact.
- (ii) ***The Planning Service should work to ensure that the legislative timetable for reform is met.*** It is equally important that Party political differences, such as those which delayed the release of the Planning Reform consultation, do not reappear to delay the legislative process.
- (iii) ***The Strategic Projects Team should deal with all applications relating to investment new to NI.*** IAP would further recommend that the technical appraisal and assessment of new technology projects such as renewable energy and bio-energy projects should be retained centrally.

Agri-food Sector Concerns

The Northern Ireland food industry operates in a highly competitive international market. Developing the right strategy moving forward needs to address the drivers and challenges in this market place and take account of the operating environment and outlook for the future. IAP in partnership with INI and DARD is in the final stages of developing a Northern Ireland Vision and Development Strategy for Agri-food. Whilst welcoming the overall direction IAP is very concerned that a number of the recommendations contained within the Barnett Report, if accepted, would severely undermine this Strategy going forward.

IAP would therefore make the following additional comments about some specific aspects of the report:

- Redirection of resources to support Innovation and R&D and phasing out of business expansion grants
- The continued focus and priority on attracting inward investors and lack of recognition of the role of indigenous companies.
- The emphasis on quality of employment as the key outcome indicator
- Delivery issues
- Business Support Processes and Range of Programmes
- Training

Redirection of Support and phasing out of business expansion grants

Whilst supportive of greater investment in innovation and R&D redirecting the most of SFA assistance between now and 2013 to these activities at the expense of business expansion, as recommended, will, in our view, severely limit growth within the agri-food sector and place many of our indigenous food companies at a significant competitive disadvantage to neighbouring and other competitor regions, ultimately threatening their longer term viability.

Northern Ireland must seek to offer a competitive package of support relative to other regions including RoI. The food sector offers the best opportunity for

export expansion, even in a recession, and limiting opportunities will stifle the overall economy. Food companies must therefore be encouraged to maximise the opportunities available in export markets.

Raising capital through financial services in the current climate of cautious banking is difficult. Business expansion support will therefore continue to be critical. Indeed some members have commented in recent times that INI financial support is a pre-condition to securing loan facilities from banks.

Whilst IAP acknowledges that SFA will become a smaller contribution as EU State Aid rules become more restrictive it is essential that we do not unnecessarily restrict financial support. Furthermore it is imperative that the Executive develops a strong case to retain a level of SFA beyond 2013.

IAP also urges DETI to recognise the need for R&D closer to market. We are concerned at the potential for diverting significant funds to universities and research centres thus preventing it from supporting commercial activity and the delivery of business strategic priorities. We must seek to improve the commercial relevance and application of research conducted through university based R&D.

In noting the increasing emphasis being placed on encouraging research & development and innovation within support programmes, IAP members highlighted the absence of any support to encourage the development or adoption of innovation at the primary production level. The IAP considered this to be a missed opportunity especially in view of the greater focus which will be placed on efficient farming systems in mitigating climate change and GHG within agriculture.

The focus on attracting inward investors

IAP stresses that the agri-food sector needs to be considered and treated as unique being the only industry that integrates primary production right through to retail. There are limited opportunities for mobile food sector investment and maximising this part of the local economy depends almost exclusively on

expanding the local food sector. Local companies also deliver much more for Northern Ireland than just employment and revenue; shaping the landscape, providing and protecting habitats, cleansing water etc. This cannot be delivered by inward investors and IAP urges the Department to resist diverting significant resources in this direction and failing to tap the enormous potential within our indigenous companies.

The emphasis on the quality of work as a key policy outcome

The food sector does encourage increased employment quality through supporting additional training and qualifications for jobs like food technicians or food hygienists. The agri-food sector, however, provides significant numbers of low-skilled job opportunities, often in isolated rural communities. In recent years many of these have been filled with an inwardly mobile workforce. The contribution this workforce makes to the economy through taxes and day to day living expenses should not be underestimated. If emphasis on job quality is the major priority, then the economic potential of the industry will not be maximised, and indeed there may well be increased economic inactivity with increasing pressure on the social security system.

The draft food strategy currently being negotiated with IAP, DARD and INI proposes a set of four key performance indicators that will capture and reflect economic performance of the food industry in Northern Ireland.

The indicators are:

- **Return on Capital Employed** – a strong indicator of overall economic performance as determined and influenced by the managerial capabilities and actions within the sector
- **Productivity** – a measure of output achieved for a given level of input which will be measured for labour (gross value added per full time employee) and capital (gross value added for £1000 of capital employed).
- **External sales** as a percentage of total turnover– a more stable measure of export performance than simply tracking values.

- **Quality of employment** as measured by salaries

IAP maintains that when considering the agri-food sector these additional indicators provide a more accurate indication of contribution to the economy than quality as measured by wages and salaries alone and that all four factors should be taken into consideration when assessing sector performance and determining public sector support.

Delivery Issues

The current DFP delegated limits around cost per job are a significant constraint to the award of SFA assistance by INI, particularly for less mobile agri-food investments where the delegated limits are lower again. This issue is exacerbated by the fact that many investments are technology focused with the aim of achieving greater labour efficiencies as opposed to creating additional jobs. This constraint is not applicable (at least to the same level) in many competitor regions.

IAP agrees that the DFP delegation limits should be reviewed to deliver INI much greater autonomy and flexibility in this regard. IAP would further recommend that the differential applied to mobile and non-mobile projects be removed. It is unjustifiable in our view that non-mobile projects should be disadvantaged in this way.

Business Support Processes and Range of Programmes

The time required to process a business plan to Letter of Offer stage has been a major source of frustration within the food sector. IAP is encouraged by the existence of guideline performance targets from the point of formal submission of a business plan. Performance management of this nature is considered crucially important in allowing applicants to manage project timeframes.

IAP recommends that INI and industry should pursue further continuous improvements in the assessment times for business support applications.

The approval process for major applications can be extended beyond the guidelines specified especially if the level of support requires an application to be referred to DETI and/or DFP. Improved processing times on these major applications is required. In addition some projects can require urgent assessment to avail of a particular market opportunity. A mechanism should exist to allow any such applications to be expedited. The recommended establishment of a NI version of the CPRG, to incorporate Invest NI, DETI and DFP in order to speed up the decision making process for significant and/or time sensitive assistance cases is essential in this regard.

IAP supports the report's recommendation to rationalise the support programmes and suggests that a smaller suite of programmes based on the strategic outcomes indicated earlier should be developed.

Training

The recommendation for INI to further reduce its support for company training seems totally at odds with the thrust and theme of the whole report. IAP would stress the importance of training and up-skilling the workforce as part of any wider development plan underlining the need to invest in people as well as premises, product, processes and plant. We would be gravely concerned if the current range of training available was to be compromised. We fully acknowledge however that there is scope for greater integration between the efforts of INI and DEL in this regard as significant confusion does exist in relation to the various sources of training programmes and support. The role of Sector Skills Councils in this regard should also be reviewed.

The IAP trusts that the comments contained within this response will be taken on board in Governments' consideration of the report.

Trevor Lockhart

Chairman
Industry Advisory panel

