



**SDLP RESPONSE TO:
The Department of Enterprise, Trade and
Investment consultation on the
Independent Review of Economic Policy
(DETI and Invest NI)
November 2009**

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SDLP Response to DETI Consultation on the Independent Review of Economic Policy (DETI and Invest NI)

Introduction

The SDLP welcomes the Minister's decision to undertake an independent review and the opportunity to respond. We recognise the significant current pressures on the NI economy and are concerned at further developing pressures, especially given the lack of intervention from DETI and DFP.

The review states *"leadership comes from the top to promote a shared vision."*¹ In this regard the SDLP believe the Minister and many of her Executive colleagues are failing to deliver.

The SDLP believe the Minister has missed an opportunity by failing to ask the panel to address pressing concerns. They state: *"We have not, however, addressed the short-term issues of preventing job losses in the recession, or of assisting the rising number of unemployed. These are pressing concerns but are outside the scope of this Review and its Terms of Reference."*²

It is essential that the two main Executive parties begin to promote this shared vision by acting to take on the difficult choices around economic and budgetary issues. The review highlights the worry over public finances in Northern Ireland: *"public finances will be much more constrained than in the past, and we anticipate that there will be very limited cash terms growth in public expenditure and a decline in capital budgets. While this will be a feature throughout the UK, it is our view that the impact may be disproportionately larger on the NI economy given its over-reliance on public expenditure as a driver of growth."*³

A catalyst for growth and a long-term commitment

The SDLP welcome the review's recognition that global best practice shows *"productivity transformation for the economy is recognised as a long-term commitment."*⁴ The SDLP believe that such a long-term commitment must begin by using the current downturn as a catalyst and be initially illustrated by 'getting our house in order' through the drafting of a new fit for purpose budget by the NI Executive and Assembly. A new budget would best provide for the implementation of some of the recommendations of this report,

¹ Independent Review of Economic Policy (IREP), page 7, E.18

² IREP, page 3, E.4

³ IREP, page 4, E.5

⁴ IREP, page 7, E.18

mitigate the worst effects of the current economic downturn and prepare our economy to take advantage of the upturn in economic fortunes when it comes.

The review goes some way to supporting this viewpoint by stating *“improved economic performance often has an economic crisis at its catalyst.”*⁵ A crisis which according to the review is to get worse before it gets better as Northern Ireland *“faces its own ‘crisis’ in terms of tightening public finances and reducing state aid limits.”*⁶ The impact of these reductions is still yet to hit home.

Innovation

We note that the review panel *“recognise the need to move from attracting lower value investments in areas such as call centres to higher value added activities. We believe that much greater emphasis should be placed on developing a strong research and Innovation base in NI, and more should be made of the region’s highly-skilled and innovative people (and not solely their comparatively low wages). This shift should help attract and retain quality FDI, and one which moves away from an over-reliance on low costs.”*⁷

The SDLP are aware that this is by no means a new proposal, however progress on this essential driver remains a primary challenge for the Northern Ireland Executive as we seek to develop our economy. This view is backed up by the report’s finding that the *“additionality in projects involving Innovation and R&D is generally higher.”*⁸ In our *“New Priorities in Difficult Times”* paper published in April we highlight that *“Forward planning must be undertaken to ensure the development of an all-island economy built around innovation.”*

Given that it is accepted as a necessity that the economy develop in this direction it is essential that this finding is acted upon. Therefore the SDLP request that DETI and Invest NI quickly develop, commit to, and execute clear strategies to ensure economic development, including the implementation of the policy delivery recommendation that *“Invest NI should further reduce its support for company training, and concentrate support mainly to small firms and to projects with a high Innovative content, where retraining is necessary to realise a substantial rise in productivity”*⁹

We also welcome the recommendation for the development over time of a *“Portfolio of Innovation policies”*¹⁰. However given the need to assist the economy out of the current

⁵ IREP, page 8, E.18

⁶ IREP, page 8, E.18

⁷ IREP, page 40, 2.38

⁸ IREP, page 7, E.16

⁹ IREP, page 129

¹⁰ IREP, page 129

downturn, and best place Northern Ireland to take advantage of the upturn when it comes, strong innovation strategies must be developed and implemented quickly. Development of policies should include a commitment to new higher education research alliances. The review proposes consideration should be given to the establishment of *“a new institution for commercially-orientated research”*¹¹ a proposal similar to an open faculty for innovation, as previously proposed by the SDLP, that would engage and encourage those in our universities, our regional colleges and our businesses into developing new and enhanced working on innovation and research and development.

We agree that efforts must be redirected with greater focus on new business development as opposed to the assistance for business expansion which the review assesses to have lower additionally.

We also agree that where available support is limited it should be concentrated *“largely to small firms and to projects with a high innovative content, where retraining is necessary to realise a substantial rise in productivity.”*¹²

The SDLP are concerned that Invest NI may have an unnecessarily narrow client focus. The panel recognise this *“a view expressed to the Review Panel is that support to a wider range of businesses would be advantageous for the economy.”*¹³ We therefore support the Panel in their consequential statement, *“we believe that the existing client status ...limits the ability of Invest NI to support the wider business base in areas where market failure also exists.”*¹⁴

Overcoming bureaucracy

The SDLP support the proposal that *“Invest NI should be allowed more freedom to operate, with DETI having less involvement in operational matters, to enable the organisation to be more entrepreneurial and responsive to business needs. To assist in this, their delegated authority limits should be simplified and increased.”*¹⁵

It is essential that Invest NI is not subject to the bureaucratic stranglehold that currently grips much of the Northern Ireland civil service.

Additionally the SDLP agrees it is important that *“As part of the reform programme, Planning Service should have processing time targets which are competitive and*

¹¹ IREP, page 8, E.19

¹² IREP, page 135, 7.18

¹³ IREP, page 53, 3.41

¹⁴ IREP, page 53, 3.42

¹⁵ IREP, page 9, E.20

comparable with those countries and regions against which NI is competing for mobile international investment."¹⁶

Policy development/Independent economic advisor

The SDLP are aware of the need for better policy development within DETI and understand the call for an Independent Economic Advisor. The review suggests that more resources are dedicated to developing and monitoring policy, instead we believe the starting point should be utilising existing resources more effectively. This process could begin by following the proposal put forward in our document *"New Priorities in Difficult Times"* whereby the economic policy units currently spread across DETI, DFP and OFMDFM would be amalgamated *"in order to streamline service provision and outputs."* Once changes are made to ensure there is no unnecessary duplication, consideration could be given to attracting into DETI persons with relevant economic development expertise to enhance the outputs of a department largely staffed by career civil servants.

Permanent Executive Sub-Committee

We welcome the panel's call on the need for a permanent executive sub-committee to tackle economic issues. The SDLP believe there must be significantly better co-ordination of cross-departmental responsibilities and that all parties in the executive should play a role in tackling the economic problems we face. The department should also engage the Assembly in the challenge of tackling the economic crisis.

In this regard the SDLP have previously proposed the establishment of a special Assembly committee to bring forward proposals for revising the budget so to protect frontline services, support key economic sectors and promote future growth. This committee will also develop a needs-based case as to why the block grant should be protected from future British government cuts.

Tourism

In our document *"New Priorities in Difficult Times"* we recognise the potential for tourism development and the ongoing need for clear strategic aims for the sector, therefore we note with interest that *"The Review Panel are firmly of the view that Invest NI should remove itself from supporting tourism projects in NI and that this area of*

¹⁶ IREP, page 9, E.21

responsibility should be picked up by other bodies that have an exclusive policy objective in the Tourism sector.”¹⁷

Advisory bodies

The review suggests the Minister should stand down the Economic Development Forum. The SDLP believes this also calls into question the necessity and value of the OFMDFM Cross-Sector Advisory Forum which is yet to produce any results of significance and comprises many of the same members.

Decentralisation

We recognise the argument put forward in the report that *“competitiveness varies between places in a region...it is therefore important to allow companies the scope to locate where they can operate most profitably.”¹⁸*

However this argument must not be used as an excuse to keep to the status quo, a Belfast centric development focus. If the North is to adequately develop its economic productivity and prosperity it requires a regional focus. It must be part of the remit of the department and Invest NI to assist outlying areas to raise the growth and productivity levels they offer.

Furthermore the NI Executive must consider further the implementation of the Bain recommendations on the relocation of public sector jobs as a way to boost prosperity and productivity in those areas most in need.

State-Aid

The SDLP shares the concerns expressed in the review over *“the changing nature of EU state aid rules which determine the scope to provide financial assistance to industry.”¹⁹*

The report highlights the fact that *“the limits for regional aid will be significantly reduced from as early as January 2011. Furthermore, the enlargement of the EU – which has brought in much less prosperous regions than NI – could see these limits reduce further (potentially to zero) when the existing arrangements come to an end in 2013.”²⁰*

¹⁷ IREP, page 69, 3.83

¹⁸ IREP, page 103

¹⁹ IREP, page 4, E.5

²⁰ IREP, page 4, E.5

It is essential that DETI and the NI Executive begin putting arrangements in place to deal with these reductions. The SDLP believe that there are significant opportunities to exploit EU funding on a North-South basis, in order to make up some of this shortfall.

Additionally we agree with the recommendation that *“DETI and other relevant departments commence work on preparing a case for retaining state aid limits²¹”* to ensure implementation of some of the changes outlined by the review.

North-South

Despite the fact that the review Terms of Reference asked the Panel to consider how DETI and Invest NI’s working links could be improved on an east/west and north/south basis, the review has failed to assess any economic benefit to be gained from North-South. Instead it has used the simplistic and ludicrous argument that because the Northern and Southern business development agencies Invest NI and the Industrial Development Agency (IDA) essentially compete for mobile investment and it is unrealistic to expect them to develop extensive partnerships. Within this short dismissal of east/west and north/south cooperation the disproportionate focus on Invest NI’s relationship with IDA is clearly designed to emphasise the competitive aspect of the relationship.

In this regard the SDLP hope that no undue political influence has been placed on the independent review panel.

We note with concern that the report states *“Invest NI and, in particular, the Industrial Development Agency (IDA) in the Republic of Ireland (RoI). While recognising the potential for collaboration between business development agencies, especially in areas such as trade missions, it needs to be recognised that Invest NI and the IDA essentially compete for mobile investment and it is unrealistic to expect them to develop extensive partnerships.”²²*

While during a Northern Ireland Assembly plenary debate on 17th November 2008 Nigel Dodds stated *“Invest Northern Ireland and IDA Ireland are, in many cases, in competition with each other for foreign direct investment.”²³*

And in response to an Assembly Question on 27th April 2009, on the issue of 12.5% corporation tax in the South, Arlene Foster responded, *“In recent years, Invest Northern Ireland and IDA Ireland have co-operated, to their mutual benefit, on several activities.*

²¹ IREP, page 135, 7.16

²² IREP, page 17, 1.9

²³ Northern Ireland Assembly, Official Report. Volume 35, no. 3, page 154,
<http://www.niassembly.gov.uk/record/reports2008/081117.pdf>

*However, the pursuit of foreign direct investment (FDI) is one key aspect of the agencies' work in which they continue to be in direct competition."*²⁴

Given that EU financial support directed towards Northern Ireland will diminish significantly over the coming years and the fact that EU funding available will likely take the form of support for work by two or more nation states combining in areas such as innovation, we believe it is essential that greater ties are developed in such areas with Southern counterparts.

Innovation Island

The SDLP believe DETI and Invest NI must integrate their long-term strategies for economic growth with the Irish Government plans to intensify efforts to create the best research, innovation and commercialisation ecosystem in Europe, which they plan to market internationally as *'The Innovation Island.'*

The SDLP share the Irish Government's vision for a smart economy. The South of Ireland currently has one of the highest performing clusters of high-tech multinationals and they plan to continue to incentivise these enterprises to invest further in high-value research and development areas to increase exports and create employment.

In our document *"Shaping an All-Island Economy"* the SDLP stated *"our economies face common challenges, so it makes sense to find common solutions. Strategic priorities North and South include, for example, tackling an acknowledged infrastructure deficit, building a more entrepreneurial culture, investing in research and development and addressing under-investment in the rural west."*

While since the time of writing there has been drastic economic change North and South, due mainly to the global downturn, the premise is still true. The SDLP urge DETI and the Northern Ireland Executive not to lose sight of the key lessons of the October 2006 *"Comprehensive Study on the All-Island Economy."*²⁵ Much of the study is still of value and if applied through joint working could ensure that Ireland North and South is best placed to take advantage of future opportunities. It is essential for our future prosperity that the whole island becomes an *'Innovation Island.'*

²⁴ Northern Ireland Assembly, Official Report. Volume 40, no. 3, page 149.

<http://www.niassembly.gov.uk/record/reports2008/090427.pdf>

²⁵ <http://foreignaffairs.gov.ie/home/index.aspx?id=337>