

COMMITTEE ON THE PROGRAMME FOR GOVERNMENT

Report on Government's responses
to the reports on the Economic
Challenges facing Northern Ireland
from the Committee on the
Preparation for Government

TOGETHER WITH THE MINUTES OF PROCEEDINGS, OFFICIAL REPORT AND PAPERS
RELATING TO THE WORK OF THE SUB-GROUP AND COMMITTEE

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Committee on the Programme for Government

1. On 24 November 2006, following a direction from the Secretary of State for Northern Ireland, the Rt Hon Peter Hain MP, the Business Committee established a Committee on the Programme for Government to agree priorities for a restored Executive and to make preparations for restoration. The Secretary of State directed that the Committee should, initially, be chaired by the deputy presiding officers, Mr Jim Wells and Mr Francie Molloy.

Membership

2. The Committee has ten members with a quorum of six, with at least one representative present from each party on the Committee. The membership of the Committee since its establishment on 24 November 2006 is as follows –

Gerry Adams MP
Jeffrey Donaldson MP
Mark Durkan MP
Sir Reg Empey
Michelle Gildernew MP
Martin McGuinness MP
David McClarty
Ian Paisley Jnr
Margaret Ritchie
Peter Robinson MP

3. At its meeting on 27 November 2006, the Committee agreed that deputies could attend if members of the Committee were unable to do so.
4. The Committee met on ten occasions between November 2006 and 29 January 2007. At the first meeting on 27 November 2006, the Committee noted the direction from the Secretary of State dated 23 November 2006. (A copy of the direction issued by the Secretary of State is attached at Appendix 7).
5. The Committee agreed to consider the Ministerial Code, Victims and Survivors issues and the Lifetime Opportunities strategy and to set up sub-groups to consider and report back on –
 - Economic Issues
 - Workplace 2010 and Public Sector Job Location
 - Policing and Justice Issues
 - Schools Admissions Policy
 - Review of Public Administration and Rural Planning
 - Comprehensive Spending Review and Programme for Government; Rates Charges and Water Reform

Sub-group on Economic Issues

6. The Committee agreed that the sub-group should follow up on the Government's responses to the three reports on the Economic Challenges facing Northern Ireland from the Committee on the Preparation for Government. The sub-group submitted its report on this matter to the Committee on 23 January 2007. The Committee considered the report on 29 January 2007 and agreed that it should be printed.

Sub-group Remit and Membership

Original Terms of Reference

1. To consider and analyse the economic package outlined by the Chancellor at the meeting with the political parties on 1 November 2006.
2. To develop an alternative set of proposals to be put to the Chancellor by the Committee.
3. To consider the potential budget deficit in the event that the water reform legislation and other revenue related issues do not proceed or are deferred.
4. To make enquiries into the reports that a financial package is to be made available to Northern Ireland by the Irish Government under its National Development Plan to be announced in January 2007; to investigate and report on the proposed quantum and arrangements for allocation and financial accountability; to determine whether any conditions should be attached and to engage with the Irish Government.
5. To report to the Committee on the Programme for Government on –
 - Its analysis of the Chancellor’s proposal by **Friday 15 December 2006**.
 - An alternative proposal for consideration by the Committee by **Friday 15 December 2006**.
 - The proposed financial package from the Irish Government by **Friday 19 January 2007**.

The Committee on the Programme for Government agreed, at its meeting on 4 December 2006, to amend the fifth term of reference to read:

“5. To report to the Committee on the Programme for Government by **15 December 2006**.”

At its meeting on 11 December the Committee on the Programme for Government agreed to further amend the fifth term of reference to read:

“5. To report to the Committee on the Programme for Government by **Friday 15 December 2006** in relation to the proposed financial package from the Irish Government and by **Friday 22 December 2006** in relation to the other aspects of the sub-group’s terms of reference.”

Follow up to Government responses to previous reports from the Preparation for Government Committee

The sub-group fulfilled the above terms of reference and reported to the Committee on the Programme for Government by the required dates. In addition, the sub-group received approval from the Committee on the Programme for Government on 11 December 2006 to follow up on the Government responses to the three reports on the economic challenges facing NI from the Preparation for Government Committee.

Membership

The sub-group has 6 members, comprising 2 representatives each from the DUP and SF and 1 representative each from the SDLP and the UUP. Substitutes may attend on behalf of members. The membership of the sub-group, including substitute members, since its first meeting on 30 November 2006 has been as follows:

Nominated members:

George Dawson (DUP), Michelle Gildernew MP (SF), Dr. Alasdair McDonnell MP (SDLP), Mitchel McLaughlin (SF), David McNarry (UUP), Peter Robinson MP (DUP).

Substitute members:

Thomas Burns (SDLP)
Fra McCann (SF)
Margaret Ritchie (SDLP)
Mervyn Storey (DUP)

Chairpersons

The initial Chairpersons approved by the Committee on the Programme for Government were Jim Wells (DUP) and Francie Molloy (SF). Following the meeting of the Committee on the Programme for Government on 11 December 2006, Thomas O'Reilly (SF) was nominated as the Chairperson for the sub-group. John O'Dowd (SF) attended as substitute Chairperson for Thomas O'Reilly at the meeting on 14 December 2006. Chairpersons have no voting rights.

Quorum and Voting

The quorum set by the Committee on the Programme for Government is 4, excluding the Chairperson, with the proviso that a representative from each of the four parties must be present. Voting is by consensus.

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Executive Summary

The Committee on the Programme for Government approved a request by the Economic Issues sub-group to consider the Government responses to the three reports on the economic challenges facing NI from the Preparation for Government Committee, including a proposed economic package set out in its second report. The Economic Issues sub-group has considered the written Government responses to each of the three reports and has questioned the Minister, David Hanson MP on 18 January 2007.

This report draws on both the positive and the negative aspects of the Government's response and finds it wanting when balanced against the need to restructure and reinvigorate the NI economy to meet the challenges of a low wage, low productivity region of the UK and a poor relation to a vibrant and expanding RoI economy. The sub-group has taken seriously the Government's claim that the NI economy is unsustainable but has not yet been convinced that the Government is serious about the fiscal changes and investment strategy required to make the economy work.

The sub-group pressed the Minister to work with the Secretary of State to ensure that the Chancellor responds positively to the Committee on the Programme for Government's request to establish a joint working group to explore the obstacles to fiscal change and to engage proactively with the NI Parties to develop an economic package that realistically addresses the economic challenges identified in the three reports from the Preparation for Government Committee. The sub-group welcomes the Government's agreement on what is wrong with the NI economy and acknowledges that some good work has commenced. The sub-group remains concerned, however, that the 'more of the same' approach, adopted in large part as the Government's response, will not provide a restored Executive with the means and tools to stimulate a high wage, high productivity economy focused on high value-added export markets. Such an approach is effectively setting up an Executive to fail and will not help it to address decades of under-investment nor to tackle effectively the intra-regional inequalities in health, education and employment across NI.

The sub-group accepts the need to create a more sustainable economy and believes that the recommendations in the reports will lead to a rebalanced economy with a stronger private sector. The sub-group urges the Government to consider carefully the economic benefits identified in the ERINI research study into corporation tax that will produce, in quick time, a NI economy less dependent on a subvention from UK tax payers and more able to pay its way.

The report calls on the Committee on the Programme for Government to issue an open letter to the Secretary of State stating the consensus view of all the Parties and pressing for a proactive and serious response from Government to equip a restored Executive with the tools to meet the economic challenges ahead.

Introduction

Background

1. There has been a strong element of continuity between the Economic Issues sub-group and the previous Preparation for Government Committee sub-group on the economic challenges facing NI, both in terms of membership and remit. The Economic Issues sub-group was aware that the previous sub-group had been pressing for a Government response to the three reports on the economic challenges facing NI, from the Preparation for Government Committee. However, the Government had responded only to the first of the three reports before the Assembly, established under the NI Act 2006, was dissolved on 22 November 2006.
2. It was on this basis that the Economic Issues sub-group requested approval from the Committee on the Programme for Government to take follow up action on the Government responses to the three reports. The Committee on the Programme for Government provided this approval on 11 December 2006 and the Economic Issues sub-group wrote to the Secretary of State on 14 December to request the written responses, which were outstanding in respect of the second and third reports and to invite the appropriate Ministers to an evidence session in January.

Work of the Sub-group on the Economic Challenges facing NI

3. The first report from the sub-group on the economic challenges facing NI, ordered to be printed by the Preparation for Government Committee on 4 September 2006, contained 21 recommendations in response to the following terms of reference:
 - To identify the major impediments to the development of the economy in Northern Ireland;
 - To consider fiscal incentives that may promote foreign direct investment and indigenous investment;
 - To consider how other matters including an economic peace package/peace dividend could contribute to economic regeneration and how this might be delivered.
4. For the first report the sub-group took oral evidence from 19 sets of witnesses and received 17 written submissions. Nonetheless, the sub-group recognised that it had only scratched the surface of the many issues raised in the evidence and sought approval from the Preparation for Government Committee for an additional terms of reference to look more closely at the merits of a range and combination of fiscal measures and to consider measures required to develop an integrated skills and education strategy linked to business needs. The Preparation for Government Committee approved this request and also commissioned the sub-group to undertake further work on how an economic package/peace dividend could contribute to economic regeneration.

5. The sub-group's second report to the Preparation for Government Committee focused on the economic package/peace dividend. This was published on 6 October 2006. The principal purpose of this report was to inform the political negotiations between the parties and the two governments at St Andrews. A further 7 oral evidence sessions were arranged and submissions from each of the political parties involved were considered. The report was structured into 4 sections: the case for an economic package; a review of the evidence presented to the sub-group; fiscal reforms as part of an economic package and other potential investment initiatives. The report contained 8 recommendations, the last of which was a detailed breakdown of potential areas for additional investment to support a competitive NI economy.
6. The third and final report from the sub-group on the economic challenges facing NI was published by the Preparation for Government Committee on 15 November 2006 and contained a further 12 recommendations on fiscal and financial incentives; education and skills and Water Reform. During its deliberations on this report, the sub-group also provided active support for the political parties to prepare for discussions with the Chancellor of the Exchequer on 1 November 2006. This became an over-riding priority and prevented the sub-group from further in-depth consideration of skills and education strategies in relation to the needs of the economy. Nonetheless, the sub-group considered a further 10 submissions received from various individuals and organisations as written evidence and also took oral evidence from the Consumer Council for Northern Ireland on the issue of Water Reform.
7. All three of the reports on the economic challenges facing NI received unanimous support from the political parties involved on the sub-group and on the Preparation for Government Committee.

Consideration of Issues

Written responses from the Government

Background

8. The Government's response to the recommendations in the First Report on the Economic Challenges facing NI was issued on 31 October 2006 (Appendix 1). However, the sub-group on the economic challenges facing NI did not have an opportunity to fully consider this response at its last meeting on 13 November and there was insufficient time for a considered response to be made to the Government before the Assembly, established under the NI Act 2006, was dissolved on 22 November 2006. The Secretary of State issued the Government's response to the Second Report on 20 December 2006 (Appendix 2) and the Economic Issues sub-group received this in early January 2007, followed by the Government's response to the Third Report on 11 January 2007 (Appendix 3).
9. In terms of the First Report, the Government could offer only preliminary responses to some recommendations pertaining to areas where work was ongoing. In a number of other cases the Government would not give a definitive response ahead of the completion of the ongoing Comprehensive Spending Review (CSR) and its associated Value for Money studies.

Continuation of existing Government policies

10. Throughout the Government's three responses there was a heavy emphasis placed on both the importance of the Economic Vision for NI in setting the direction for economic policy over the next 10 years and the potential of the forthcoming Regional Economic Strategy, which will issue for consultation shortly. Whilst the Economic Issues sub-group welcomes the importance which Government is placing on a co-ordinated approach to economic development it would not share the Government's confidence that the existing policies provide the radical approach required to rebalance the economy and to attract high value-added, export orientated companies to NI.
11. Included in the recommendations in the First Report was a call for the role, structure and function of Invest NI (INI) to be reviewed to determine if it is delivering effectively on its core objectives and is fit for purpose. The Government response points to the ongoing Value for Money assessment of INI activities, which forms part of the CSR process. The Economic Issues sub-group looks forward to the outcome of this assessment, particularly in terms of the effectiveness of Selective Financial Assistance granted to indigenous and foreign-owned businesses in NI. In its Second Report, the previous sub-group acknowledged that the grant regime has successfully slowed the decline in manufacturing jobs and attracted a number of call centres and related activities, although the sub-group noted that these tended to be at the low value-added end of the scale. However, it concluded that NI has gone as far as possible with a grant-based regime and that this approach has largely failed to raise levels of productivity

above the long-term ceiling of 20% below the UK average. The Economic Issues sub-group concurs with this analysis.

12. The Economic Issues sub-group recognises the importance of both the efficiency drive within the ongoing CSR and of the wider reform and modernisation agenda, with the aim of reallocating savings to front line services. It is in this context that the Committee on the Programme for Government, on the recommendation of the sub-group, called on the Chancellor to include, in an economic package, additional supporting expenditure to cover short-term restructuring costs in the current Reform Programme for the public services in NI.

Fiscal reform, particularly a competitive corporation tax rate

13. In its response to the recommendation in the Third Report, relating to the ERINI research conclusions on the case for NI having a competitive rate of corporation tax, the Government argued that the prevailing corporation tax rates place the UK economy in a competitive position internationally. The Economic Issues sub-group is not aware of the justification for this statement. Nor does the sub-group accept that even if prevailing tax rates were competitive for the UK as a whole, that this would help NI to converge towards UK average productivity levels. Both the standard (or headline) rate and the effective average tax rate are much higher in the UK than in RoI. The sub-group is aware that tax credits and allowances reduce the effective rate of tax in any particular year but the sub-group is advised that there are internationally recognised norms for comparing effective tax rates in the context of the decisions of companies considering alternative locations for investment. In this regard, the sub-group would point to both the figures published by the Centre for European Research (ZEW) for 2005, where the rates for RoI and the UK are respectively 14.7% and 28.9%, and to the Institute for Fiscal Studies, which finds the same 2:1 ratio.
14. The Government response further argues that 96 per cent of NI companies do not pay the 30 per cent tax rate “and that this is what should be assessed when comparisons are made with the Republic of Ireland”. The sub-group is well aware that the small companies’ rate is lower than the rate for large companies, albeit still 50% higher than the standard rate in RoI. The sub-group considers that the Government’s argument misses the point, in that the strategic objective behind the call for fiscal reform, particularly a competitive rate of corporation tax, is the expansion of our export base through the attraction of profitable foreign direct investment (FDI) flows of the kind that have transformed the RoI’s economic structure. The companies that need to be attracted to NI will not be taxed at the lower rate.
15. The Government response on the aforementioned recommendation also argues that corporation tax rates were not the sole factor contributing to the high economic growth rates in RoI. This point, however, was well recognised by the previous sub-group and by the Economic Issues sub-group. It was highlighted across the three reports, where the previous sub-group recognised that the challenges facing the NI economy are complex and that there is no “silver bullet” solution. A competitive rate of corporation tax is recognised as a necessary but not sufficient condition for convergence in productivity, and other changes are necessary. Both economic sub-groups adopted an integrated approach by combining recommendations on fiscal reform, particularly a competitive rate of corporation tax, with recommendations on infrastructure, education and skills.

16. The sub-group based its support for a competitive rate of corporation tax on the research coordinated by ERINI. The Government response suggested that 'some concerns remain over the methodology employed and the policy assumptions adopted' but failed to specify what these concerns were or to say whether in the Government's view they invalidated the case for lower corporation tax. The sub-group takes the view that this level of response is disappointing and hopes that the Government will involve itself in a more meaningful dialogue on the merits and difficulties associated with fiscal reforms. In this regard the PfG Committee called on the Chancellor to establish a joint working group to consider the obstacles associated with a differential fiscal regime.

Investment in infrastructure, education, etc.

17. Amongst the recommendations in the Second Report was a call for the economic package to include additional investment in a number of areas of importance in supporting a competitive economy, including transport infrastructure, business support measures, technology and knowledge transfer, expansion in university places, tourism and other areas. Within these broad areas a range of specific projects were suggested together with provisional costings. These projects were indicative of the types of schemes that would provide a necessary complement to a competitive fiscal regime. It is recognised, of course, that ultimately decisions on specific projects would be for a future NI Executive. The Economic Issues sub-group, nonetheless, reaffirms the vital importance of the broad areas for investment identified in the Second Report and the quantum involved. The sub-group is disappointed at the Government's failure to positively address these issues in its responses.

An economic package and restoration of devolution

18. The Economic Issues sub-group is also disappointed at the general approach employed by Government in its responses to the three reports, whereby a definitive Government position on a range of key recommendations is deferred in the context of the ongoing CSR. The sub-group understands the purpose of the ongoing CSR in determining public expenditure allocations for NI. However, the sub-group considers that Government should recognise the importance, which all the main political parties in NI attach to the need for a new devolved administration to be provided with a reasonable starting position from which to tackle the economic challenges ahead.
19. In the view of the sub-group, the prospect of real prosperity, akin to that recently achieved in the RoI, would greatly enhance the prospects for restoring devolved government. An upfront commitment is therefore required from Government to provide a restored NI Executive with a radical package of enabling measures, including fiscal reform, particularly a competitive rate of corporation tax, and complementary financial investments and other measures, in line with the recommendations from the previous sub-group.
20. The Economic Issues sub-group also considers that the Second Report sets out an irrefutable case for an economic package along the lines of the recommendations contained in the report and in the Committee on the Programme for Government's letter of 3 January to the Chancellor. This demonstrated how NI has one of the UK's least prosperous economies, with low productivity and low living standards being the key economic problems. The sub-group concludes that the Government responses, including the package which the Chancellor has

offered, will fail to adequately address these deep-seated structural problems facing the NI economy and represent a “more of the same” flawed approach that has marked previous attempts to rebalance the economy.

21. The Secretary of State has publicly acknowledged the importance of the work of the previous sub-group, particularly the Second Report, and has encouraged the political parties to present a common front to the Chancellor on the case for an economic package, including the proposal for fiscal reform and in particular a competitive rate of corporation tax. Moreover, when the Prime Minister met local businessmen in Armagh in April 2006, he promised that if the political parties jointly made this proposal it would be taken seriously. The political parties have now made the proposal in a number of reports and backed it with evidence. From the Government’s written responses to-date, the Economic Issues sub-group concludes that the proposals require more serious consideration from Government.

Evidence session with Minister

22. The Economic Issues sub-group took evidence from the Minister responsible for the Department of Finance and Personnel, David Hanson MP on 18 January 2007. On foot of the sub-group’s request to the Secretary of State of 14 December 2006 for a meeting with the appropriate Ministers, Mr Hanson had agreed to meet the sub-group to discuss all three reports. The Minister was supported by senior officials from the Department of Finance and Personnel, Department for Employment and Learning and the Department of Enterprise, Trade and Investment.

Continuation of existing Government policies

23. In his oral evidence to the sub-group, the Minister pointed to the significant improvements in the NI economy over the past decade, particularly the growth in employment and lower unemployment, which is now below the UK average. The Labour Government’s record of investment in NI was highlighted and emphasis was placed on the Government’s commitment to focus on the four key drivers of economic growth – skills, infrastructure, innovation and enterprise – which will be set out in the forthcoming Regional Economic Strategy. The Minister also majored on the economic challenges facing NI, including the need to grow the private sector, to reduce economic inactivity, to promote innovation and commercial R&D, to up-skill the workforce, to improve infrastructure and to reap the economic benefits from closer co-operation with RoI, GB and Europe.
24. Much of the economic analysis presented by the Minister is not in dispute, including the improved economic position, the importance of skills, infrastructure, innovation and enterprise as economic drivers, and the key challenges facing the NI economy. All of these issues were examined in the previous sub-group’s three reports. The divergence between Government, on the one hand, and both the Economic Issues sub-group and its predecessor, on the other hand, concerns the approach and the resources needed to address the structural weaknesses and challenges facing the NI economy.
25. The Secretary of State has stated that the NI economy is ‘unsustainable’, which is a very serious allegation. From the oral evidence presented by the Minister and his officials, the sub-group remains unconvinced that existing Government policies provide the radical approach required to lift the NI economy onto a new growth trajectory. The Minister followed

the line taken in the Government's written responses to the three reports by placing considerable store in the forthcoming Regional Economic Strategy as a way forward. The sub-group is sceptical in this regard and has left the Minister in no doubt that it will expect to see this Strategy contain clear methodologies, targets and timescales for closing the productivity and wealth gap between NI on the one hand and GB and RoI on the other.

Fiscal reform, particularly a competitive corporation tax rate

26. Members reminded the Minister of previous Government commitments to look seriously at the case for fiscal reform, in particular a competitive rate of corporation tax in NI. In the view of the sub-group, the strategic aim of this tax reform is to attract high value-added FDI to NI, of an order comparable to RoI, which would make a major contribution to closing the productivity gap within a reasonable timeframe.
27. When pressed on the merits of introducing a competitive rate of corporation tax, the Minister's instinctive response was to rehearse the difficulties without presenting solutions. The Minister did, however, accept that there are particular challenges in attracting businesses to border areas of NI, primarily because a more competitive rate of corporation tax is available in RoI. Moreover, the sub-group welcomes the Minister's assurance that the Chancellor and the Prime Minister remain open to considering the case for fiscal reform, including a differential rate of corporation tax. The sub-group also welcomes the Minister's undertaking to engage on the various difficulties, and possible solutions, associated with fiscal reform and to discuss them with the Treasury.
28. On a related issue, the Minister was questioned on whether Government would be open to discussion on breaking the link between borrowing and local taxation under the Reinvestment and Reform Initiative (RRI) – thereby enabling a future Executive to repay on borrowing from any source, not only local taxation. The sub-group notes that the Minister is open to further discussion on this suggestion.

Investment in infrastructure, education, etc.

29. On the issue of infrastructure, the Minister rehearsed the Government's plans under the ten-year investment strategy for NI (ISNI), and the Chancellor's economic package announcement of an increased capital investment from £16 billion to £18 billion. The sub-group considers that this response fails to address the sound case that has been made for significant additional investment in infrastructure, over-and-above existing commitments, as part of the integrated strategy for economic development set out by the previous sub-group.
30. In questioning the Minister, the sub-group queried why the Government response to the Second Report had failed to address the proposals on specific transport infrastructure projects, other than to estimate their costs. The sub-group sought a clear Government position on the merits of these proposals, particularly the strategic roads projects. Whilst this was not forthcoming, the sub-group welcomes the commitment which the Minister gave, to further examine the prioritisation of the proposed projects.
31. In responding to a question on the possible funding arrangements for the proposed rapid transit system linking Belfast city centre with the Titanic Quarter, the Minister was upbeat about the prospect of attracting private capital to fund the infrastructure costs associated with

the developments in Titanic Quarter generally. The sub-group noted that progress on the Titanic Quarter signature project would also be dependent on a successful outcome to the current application for National Lottery funding.

32. Members sought clarification from the Minister on the Government position on the recommendations in the Third Report, which called for special attention to be given to science, technology and engineering as part of an integrated education and skills strategy. In this regard, the sub-group welcomes the fact that the Government recognises the importance of protecting and developing STEM subjects and also the news that an inter-departmental working group has been established, involving business leaders, to review how best these subjects can be promoted in the education curriculum. The sub-group requested information on the terms of reference for this working group (Appendix 6) and Members will await with interest the outcome of its work.
33. On the issue of up-skilling, the Minister explained that consideration is being given to dramatically increasing the number of apprenticeships, with a plan to have 10,000 in place by 2010, and to introducing pre-apprenticeships in schools for pupils aged from 14 – 16. The sub-group welcomes this and the Government's recognition of the importance of skills development at technician level to facilitate businesses in exploiting emerging opportunities in new technologies.
34. The sub-group is encouraged by the confirmation that Government is actively considering the recommendations from the previous sub-group, which called for an increase in the number of PhDs in five key technology areas and for an increase in the number of university places in NI. The sub-group considers that Government should take positive action on these proposals and hopes to see firm targets and timescales for these measures contained in the forthcoming Regional Development Strategy.
35. The Minister was questioned on the need to encourage young people's involvement in the economy and particularly the need for additional investment in science, technology and engineering and in resources available for early years educational services.
36. The Minister agreed on the need to examine further what needs to be done to encourage interest and uptake in science and technology for 16 – 18 year olds and to promote sufficient employment opportunities in these areas. The Minister also referred to ongoing work to develop science and technology skills and interests in primary school children. The Minister stated that Government broadly accepted the recommendations in the Bain Report. The Government intends to produce an implementation plan for the recommendations shortly.
37. In response to a question, the Minister agreed to consider the recommendation in the Economic Issues sub-group's second report to the Committee on the Programme for Government for an additional £20m for areas such as special needs education, early years development, and educational underachievement. The Minister undertook to discuss this recommendation with the Minister for Education, Maria Eagle MP.

An economic package and restoration of devolution

38. As outlined above (paragraphs 18 – 21), the sub-group considers that Government failed to recognise and respond to the political consensus that exists on the need for a new devolved

administration to be adequately resourced to tackle the deep-seated structural weaknesses in the NI economy. From both the Government's written responses and the oral evidence from the Minister, the sub-group concludes that genuine engagement is required from Government on NI's economic future. This must take account of the level of cross-party unanimity on the issues and, in contrast to its stubborn approach to Water Reform, Government must show flexibility and willingness to facilitate a future Executive in taking new policy directions.

39. Members impressed upon the Minister the requirement for Government to move from its entrenched position, as represented by the Chancellor's Package, of offering only a continuation of past funding levels combined with 'self-help' measures. The sub-group considers that it is unrealistic to expect a new devolved administration to raise economic performance above the levels achieved in the past with only a similar level of total resources as has existed to date. Without a Government commitment to provide a new devolved administration with the wherewithal to succeed in creating a more prosperous economy, it will be constrained to do little more than maintain NI as the UK's least prosperous region and a poor relation of RoI. The sub-group considers that, in these circumstances the danger is that the Assembly will have been set up to fail. This cannot be in the interests of NI.
40. A copy of the Official Report of the evidence session with the Minister is attached at **Appendix 4.**
41. On a separate issue, the sub-group notes the publication of the National Development Plan in RoI and agrees that its proposals regarding NI require careful consideration.

Conclusion and Recommendations

42. The sub-group welcomed the opportunity to consider the Government responses to the reports on the economic challenges facing NI – challenges which will face a restored Assembly. Much time and effort was expended on producing well researched and costed proposals. However, the sub-group has been bitterly disappointed by the failure of Government to engage seriously on these issues. It considers that Government's response has been inadequate and unsatisfactory, leaving a future Executive lacking resources to do more than maintain NI's current unenviable position as the UK's poorest region.
43. To avoid a new Assembly being set up to fail, the sub-group recommends **that the Committee on the Programme for Government:**
- **takes every opportunity to press the Government to respond positively to the three reports on the economic challenges facing NI;**
 - **publishes this report;**
 - **recommends to the Business Committee that a plenary debate be held on the economic package and the Government response at the earliest opportunity;**
 - **ensures that it regains the initiative by issuing an open letter to the Secretary of State along the lines of the draft at the Annex to this report, which reinforces recommendations made in the three reports on the economic challenges facing NI and includes a rebuttal of the general approach employed in the Government's responses to the key recommendations.**

Committee on The Programme for Government

Room 247
Parliament Buildings
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29 January 2007

The Rt Hon Peter Hain MP
Secretary of State for Northern Ireland
Northern Ireland Office
Stormont Castle
Belfast
BT4 3TT

Dear Secretary of State

The Economic Challenges Facing Northern Ireland

Thank you for the Government's responses to the three reports of the Assembly's Committee on the Preparation for Government. The Committee on the Programme for Government considered these at its meeting today.

The Committee acknowledges the Chancellor's offer of an early settlement for Northern Ireland as part of the Comprehensive Spending Review for 2008-11 and considers that this matter is of such fundamental significance for a restored Executive that it has agreed to issue this open letter to you.

As you know the Committee, and the former Committee on the Preparation for Government, have taken the view that a new start in economic prosperity should form an essential element of any package of additional resources and fiscal measures provided in preparation for the restoration of devolution in Northern Ireland. The high degree of consensus reached by all five political parties involved in compiling the three reports of the Committee on the Preparation for Government, demonstrates the parties' common cause on this important matter.

The consensus included the strong view that Northern Ireland was most unlikely to be able to lift itself from the unenviable position as the UK's poorest region, with what you have described as an unsustainable economy, without a radical change in current policies for economic development. Despite a relatively generous grant regime in the past, Northern Ireland has remained firmly wedged at the bottom of the UK league table of prosperity. The three reports argued for an integrated package to radically change this unacceptable position.

The Committee is grateful that you responded in detail to the proposals contained in the earlier three reports, but expresses a degree of disappointment that so many of the responses

did little more than rehearse existing government policy. What were missing in its view were recognition of both Northern Ireland's unfavourable economic position and the failure of current policies to change this position, as well as an imaginative approach to new policies.

Whilst the Committee recognises that it will be the Executive's responsibility to design policy under a new devolved government, it also recognises that without adequate resources or a competitive tax regime, any Executive will lack the power to achieve reasonable levels of prosperity. Members regret the fact that the Chancellor's offer, which was announced in November 2006, appears to involve little more than a continuation of existing trends in funding for public expenditure in Northern Ireland. Lacking these key capabilities, a restored Assembly will be constrained to do little more than maintain Northern Ireland as the United Kingdom's least prosperous region and a poor relation of the Republic of Ireland. In these circumstances the danger is that the Assembly will have been restored, only to fail to deliver. This cannot be in the interests of Northern Ireland.

The proposed economic package which this Committee proposed to the Chancellor on 3 January 2007, is based on:

- Fiscal reforms, particularly a competitive rate of corporation tax, to enable Northern Ireland to emulate the spectacular economic success achieved in the Republic of Ireland.
- A major investment package to strengthen and rebalance the economy in support of fiscal reforms.
- Reforms to funding arrangements for public expenditure in Northern Ireland, including urgent substantial improvements to funding arrangements for the future of water provision.

The Committee calls on you to recognise the importance of improving Northern Ireland's economic position within the United Kingdom and on matching the success of the Republic of Ireland. It asks you to explain the basis of your apparent belief that current policies can close the permanent prosperity gaps with the United Kingdom and Republic of Ireland, when they have not done so in the past. Finally the Committee asks that you acknowledge the economic and political importance of the integrated programme it has proposed and that you agree to meet the political parties represented on the Committee to discuss how this can be taken forward. The Committee welcomes the agreement of the Minister, David Hanson MP, to work with you in pressing the Chancellor to establish the joint working group on fiscal measures and the economic package, which was called for in the letter of 3 January 2007 to the Chancellor.

The Committee has agreed to recommend that the issue of an economic package should be debated in the Transitional Assembly as soon as possible.

Yours sincerely

Jim Wells MLA
Chairperson
Committee on the Programme for Government

Appendix 1

Government Response to First Report on the Economic Challenges facing NI



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31 October 2006

**THE COMMITTEE ON THE PREPARATION FOR GOVERNMENT'S 1ST REPORT ON
THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND**

As I indicated in my 18 September letter, I am very pleased that the Economic Sub-group has made such excellent progress in addressing its terms of reference.

My Ministerial colleagues and I have considered the recommendations in the 1st report and Government's response to its recommendations is attached. As I am sure you will appreciate, in many cases we are offering a preliminary view, bearing in mind that work is ongoing in relation to several of the recommendations. Also, in certain other cases our definitive response can only be determined in the context of the ongoing Comprehensive Spending Review.

I trust that the Sub-group will find this response helpful.

Finally, I would acknowledge that Government has also received the 2nd report and that a response to it will issue as soon as practicable. I also await the 3rd report with interest.

THE RT HON PETER HAIN MP
Secretary of State for Northern Ireland





GOVERNMENT RESPONSE TO THE COMMITTEE ON THE PREPARATION FOR GOVERNMENT'S 1ST REPORT ON THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND

Recommendation 1

The sub-group agreed to include all the submissions and presentations received in its report and recommends that PfG and the Secretary of State and his Ministers should study the evidence carefully. There is much quarry for further work in the material submitted.

Government welcomes the extensive volume of evidence gathered by the Economic Sub-group from a broad range of key stakeholders and agrees that it merits careful examination.

Recommendation 2

That the current level of Public Expenditure should be protected during a transitional period agreed with Treasury to allow competitive fiscal incentives and targeted investment to rebalance the economy towards high value added Foreign Direct Investment (FDI) and indigenous companies.

There are no plans to reduce the level of public expenditure across the UK and the ongoing Comprehensive Spending Review will give Northern Ireland a settled allocation running through until March 2011. When devolution is restored, it will be for the Assembly to allocate Northern Ireland's public expenditure budget across the various functions of Government according to its own priorities.

As the Sub-Group's report highlights, a key economic challenge going forward is to reduce NI's over dependence on public expenditure and create a more vibrant, profitable private sector. The latest available figures show that Government spends some 30% more on a per head basis in Northern Ireland than the UK average. In 2006/07 public expenditure in Northern Ireland (Departmental Expenditure Limit) will be some £8.19 billion and this will increase to £8.57 billion in 2007/08.



Recommendation 3

That the Business Investment Programme budget is reviewed and additional resources made available to finance grant aid, targeted at business actively engaged in collaborative R&D activity with universities, multinationals and other partners.

Under the current Comprehensive Spending Review, all budgets are being examined to ensure they are being utilised effectively. This includes an assessment of the Invest NI budget and, in particular, the effectiveness of Selective Financial Assistance granted to indigenous and foreign owned businesses in Northern Ireland. The mechanisms through which Invest NI is financed are also under review. In line with the goals of the Economic Vision and the forthcoming Regional Economic Strategy, it is recognised that collaborative R&D activity by businesses with universities, multinationals and other partners is a priority area. This is also recognised in the Budget 2006-08 Skills and Science Funding Package which, amongst other measures, is providing additional resources to assist the transfer of science and technological research into the marketplace.

Recommendation 4

That the role, structure and functions of Invest NI (INI) be reviewed to determine if it is delivering effectively on its core objectives and is fit for purpose.

Invest NI's role is to develop the Northern Ireland business base, thereby increasing its contribution to economic growth. Essentially this is to be achieved by assisting the formation of new, and the development of existing businesses, within Northern Ireland.

The recently published Invest NI Performance Report (<http://www.investni.com/index/about/ab-reports-n-publications.htm>) highlights a number of key achievements. For example, in its first three years, Invest NI levered more than £1.1 billion private sector investment into the Northern Ireland economy. There is also evidence that Invest NI clients are now more export focused; and there



EDF's Skills Sub-group, better lines of communication are being established between business and Government. Another component of FE Means Business is a revision of the FE Curriculum to ensure that it focuses on the needs of employers and on the development of employability skills. In addition, development of enterprise and entrepreneurship skills is currently being included as an integral part of the curriculum for students in further education colleges. With regard to creating an enterprise culture in our schools, employability is one of the key themes running throughout the revised curriculum at primary and post primary level. This will place a greater focus on the development of enterprise and entrepreneurship skills for our young people. Also through the Skills and Science Fund, the Vocational Enhancement Programme (VEP) has been extended. This programme enables schools, working with further education colleges, to introduce professional and technical subjects into the curriculum. VEP is supporting the full introduction of the Curriculum Entitlement Framework which requires young people aged 14-19 in schools to be offered at least 1/3 of their curriculum in professional and technical subjects. In addition, the proposed new programme – "Training for Success" – and the extension of the Apprenticeship Programme together with the introduction of a pre-apprenticeship programme will better address the skill needs of employers.

There is, however, much to be done if NI is to be seen as an exemplar region in terms of our commitment to service, innovation and R&D and if this is to become a trigger for further leading edge investment. This theme is also picked-up in the Preparation for Government Committee's second report.

The level of public sector investment in professional and technical (vocational) training, skills and R&D will be determined in the context of the Comprehensive Spending Review.



are increasing levels of R&D and innovation by the smaller Invest NI clients. Moreover, the move to a single HQ building has enabled the organisation to become more efficient and staffing numbers have been reduced by 20% since 2002. Government is satisfied that Invest NI has delivered much in relation to its core objectives.

That said, Invest NI continues to operate in a challenging and rapidly evolving economic environment. Invest NI's activities are being reviewed alongside those of others in the Comprehensive Spending Review process and this will inform public expenditure allocations going forward. Government is also currently addressing the transfer of certain local economic development functions from Invest NI to the new local authorities which will be established under the Review of Public Administration.

Recommendation 5

That investment in vocational training, skills and R&D activity in universities should be increased, an effective strategy developed to enhance knowledge transfer from applied R&D activity in commercially viable products, and that FE college curricula are better integrated with the needs of business and focused on areas where skills shortages are hampering future economic growth. The aim should be to create an enterprise culture in schools including the primary sector.

It is vitally important that there is enhanced knowledge transfer from applied R&D; that FE colleges are better integrated with the needs of businesses; and that there is a focus on key areas with skills shortages. Government also agrees that an enterprise culture must be created throughout the education system. Much has already been achieved in these areas. For example, through the Higher Education Innovation Fund (HEIF) and the Knowledge Transfer Partnerships (KTP) programme, knowledge is being transferred much more efficiently from Higher Education establishments to businesses. Government is also developing a Higher and Further Education Collaboration Fund to identify and meet the knowledge transfer needs of businesses. On skills shortages, the Skills Strategy and FE Means Business programme are being implemented; and, through advisory bodies such as DEL's Skills Experts Group, the regional Workforce Development Forums, and



Recommendation 6

That a "Knowledge Bank" for business should be established modelled on the National Assembly for Wales strategy document "Wales: A Vibrant Economy"

We are aware of the "Knowledge Bank" concept and have also noted the further recommendation in the Sub-Group's second report. Officials have been in contact with colleagues in the Wales Office and this recommendation will be addressed more fully in a further response. However, it would appear that the services and assistance offered by Invest NI through its Client Team approach are similar to those available from the "Knowledge Bank". Government will nonetheless review the concept further to ensure that our approach in this important area is as effective as possible.

Recommendation 7

That a dedicated post should be created in the Department of Education for a person to take overall responsibility for improvement in science education.

Currently, science is well supported through the Education and Library Boards' Curriculum Advisory and Support Services and the officers of the Council for Curriculum, Examinations and Assessment. The creation of the Education and Skills Authority (ESA) will give DE an opportunity to consider the best arrangements for the future both for ESA's support for schools in the delivery of the science curriculum and for the Department's strategic role.

Recommendation 8

That any savings that may be made from government efficiencies should be retained and used in Northern Ireland.

Following the successful delivery of the Gershon efficiency plan in the 2004 Spending Review, Government has initiated a further efficiency drive within the ongoing Comprehensive Spending Review. As with Gershon, all efficiency savings will be retained within the Northern Ireland Block for allocation to front line service delivery. The efficiency agenda does not take resources away from Northern Ireland.



Recommendation 9

That PFG recommend the centralisation of government responsibility for economic matters within a single department or agency. That all government departments work to agree a common strategy and vision in support of promoting economic growth and social partnership that is accountable to a restored Executive

The Economic Vision for Northern Ireland sets the direction for economic policy over the next 10 years. It was developed by Government, involving all Departments, and its partners in business, trades unions, local political parties, academia and the voluntary sector. Government remains convinced that a co-ordinated approach is essential to achieving the goals set out in the Economic Vision and in the forthcoming Regional Economic Strategy. As a matter of good practice, Departments and Ministers consult and co-operate on the development and delivery of economic policies and programmes.

In terms of the Committee's recommendation for a single economic Department or Agency, it is agreed that this would be considered as part of any future restructuring of Government Departments.

Recommendation 10

That there should be a discussion with Ministers on alternative uses for the £30m set aside for an energy subsidy.

Government has decided to withdraw its State aid notification of the energy subsidy proposal. Although the European Commission had not taken a decision on the proposal, it was becoming clear that the proposal could not be targeted specifically at the business community, which was the original intention and that further delays were inevitable. As part of the Comprehensive Spending Review, DETI and DFP have been asked to consider alternative economic initiatives, which might provide more assured benefit to the business community from the remaining funds identified for the energy subsidy proposal. It should also be noted that the current CBO allocation is £20.7 million (£30 million was the estimated cost for the first two years only). Government will, of course, consider the Preparation for Government



Committee's recommendation in ongoing budget management and in the CSR context.

Recommendation 11

That detailed analysis is undertaken to identify economic opportunities through establishing effective clustering and collaboration with ROI on infrastructure development, R&D and skills training along designated economic corridors.

This essence of this recommendation is already under active consideration by Government and by EDF's Vision Sub-groups. Furthermore, at the request of the British Irish Inter Governmental Conference (BIIGC), work to scope the extent for further practical co-operation on the development of all-island economic co-operation has been undertaken. A comprehensive study has identified a number of areas, under the themes identified by the Preparation for Government report, where future co-operation would deliver mutual benefits and how such co-operation might best be taken forward. The report was published on 26 October.

In relation to economic corridors, the North West Gateway Initiative is designed to provide a comprehensive framework within which further planning and collaborative action can be co-ordinated on a North/South basis. The key elements include the creation of a non statutory development framework; upgrading of the road network; completion of the cross border technology park; telecommunications links; measures to address employment, skills, economic development, further education issues and additional co-operation on health.

A parallel study is also underway on infrastructure, to build on existing collaboration in the areas of energy, waste management, transport and spatial planning.



Recommendation 12

That the planning process is reviewed and adequately resourced and effectively managed to reduce delays and to provide an enabling culture and an appropriate balance between the needs of the economy and the requirements for consultation. That the planning process is streamlined by setting end dates for consultation and focusing priority on approving area plans.

Government acknowledges that there are general concerns about the time it takes to process some planning applications in Northern Ireland. The reasons for this are two-fold:

1. a rapid rise in the number of planning applications received in the last 3 years; and
2. increasing public interest in planning issues.

The first point is illustrated by the fact that in 2002/03 there were some 27,000 applications, rising to around 35,000 by 2004/05.

The second point is illustrated by the fact that over 55,000 objections have been received to applications in the last 2 years and, on a broader front, over 10,000 representations have been received on the three Area Plans recently published.

Planning Service staffing has also increased in the past 3 years from 616 posts to a current level of 864 posts, in response to backlog and the increasing workload. While Planning Service has a responsibility to manage the end-to-end planning process, it does not have total control of the process. Applicants, agents, consultees, including District Councils all have important contributions to make to an efficient planning process.

Planning Service is committed to making improvements where possible and, for the last 3 years, has been engaged in a very ambitious reform and modernisation programme. This is looking at all aspects of the system and involves legislative, information and communication technology, administrative and process changes, as well as preparations for the Review of Public Administration. Planning Service has



also created a new Strategic Projects and Design Division to handle economically significant applications. Taken together, these changes will bring real improvements in services and seek to address the concerns of the Sub-group.

The consultation process for planning applications operates with end dates and these form part of the normal procedures. In terms of Area Plans, Planning Service has an ambitious programme to provide complete and up to date development plan coverage for Northern Ireland and has made considerable progress in implementing this challenging programme. Within the past three years Planning Service has published three adopted plans and four draft plans, including the Draft Belfast Metropolitan Plan 2015. Collectively, this covers 18 of the 26 Council areas in Northern Ireland. Draft plans for a further 6 Council areas are under preparation and the remaining two Council areas are already covered by up to date adopted area plans.

For major electricity projects requiring consent from DETI, primary legislation has been brought forward to streamline the consents process which will allow DETI to grant not only the electricity consent but also the deemed planning permission.

Recommendation 13

That an implementation plan is developed and agreed across government departments and agencies that coordinates the delivery of various economic strategies and monitors performance against rigorous completion targets.

As indicated in the response to recommendation 9, the Economic Vision for Northern Ireland set the direction for economic policy over the next 10 years and was developed by Government in consultation with its social partners. Implementation actions in support of the Vision are monitored by the Economic Development Forum and the forthcoming Regional Economic Strategy will underpin the Vision. The RES will highlight where new actions need to be woven together with existing measures into a comprehensive, coherent and dynamic strategy for sustainable economic



growth, rising employment, better opportunities for all our people and greater wealth throughout Northern Ireland.

In terms of monitoring, it was agreed at the Economic Development Forum meeting in September 2006 that DFP, which is the lead department on the Regional Economic Strategy, will meet with the relevant EDF Sub-group(s) to establish ambitious targets for the NI economy. These targets will be reviewed by departments and EDF on an ongoing basis.

Recommendation 14

That an urgent review should be undertaken of the most appropriate and effective structure for delivering urban and rural regeneration plans.

Under the Review of Public Administration, the delivery of Urban Regeneration will transfer to local government in 2009. The Department for Social Development will, in the meantime, work with the Department of Environment to devise the most appropriate framework for guidance and oversight of local regeneration plans.

Recommendation 15

That serious action is taken to eradicate organised crime and criminality, particularly where it impacts on business and acts as a serious impediment to economic stability and growth.

The Organised Crime Task Force (OCTF) Annual Report and Threat Assessment 2006, published earlier this year, provides information about the extent of organised crime and the plans to tackle it. This is a key priority for Government, not only in Northern Ireland but in many other parts of the world. Among the actions being taken forward include: an extension of the membership of the OCTF to include the business community; raising awareness of the danger of organised crime; measuring its impact; putting in place a framework for identifying; prioritising and managing work against criminal gangs; strengthening licensing regimes and regulatory frameworks to prevent money laundering; enhancing asset recovery from criminals; reducing the impact of extortion and co-operating on cross border crime.



In addition, the Northern Ireland Affairs Committee recent report on organised crime set out 59 specific recommendations for tackling this issue in Northern Ireland.

These will form a key part of Government's continued drive to address organised crime

Recommendation 16

The sub-group noted that from the current evidence it was clear that a low rate of corporation tax was a major driver in ROI economic success through promoting inward investment and that there have been problems in practice with the use of tax credits in Northern Ireland. The sub-group agrees that it would be appropriate to reflect on the outcome of the ERINI research detailed below and recommends that:

- The Economic Research Institute of Northern Ireland's (ERINI) study on the impact of FDI should be copied to PfG and the economic sub-group to inform deliberations on fiscal options necessary to promote FDI and indigenous business;
- PfG request that DETI commissions an independent study into the relative economic benefits and comparative costs of a range of fiscal measures including:
 - Reform of corporation tax to create a competitive headline rate;
 - Increased R&D tax credits based on the work of Professor Harris;
 - Improved grant aid including a substantial increase in the business investment budget and the possible reintroduction of the Chancellor's initiative on capital grants;
 - Reformed fuel-duty levels to reduce the transport costs of business and undermine the smuggling of fuel that promotes crime and ultimately reduces tax revenue; and
 - The capping of industrial rates and the introduction of a small business rate relief scheme.
- The study should examine the relative benefits and costs of each individual option and identify the combination that maximises FDI and indigenous business growth;

The study, as a matter of urgency, should address the following questions:



- Any costs in terms of revenue foregone?;
- Longer term impact on tax revenues as investment rises?
- How far is investment in established firms sensitive to rates of post-tax profitability?
- How far is the level of FDI determined by rates of business taxation and how far by other factors (such as availability of skilled labour, the science base, English language availability and extent of business regulation)?

Government is aware of the ongoing debate on corporation tax and other fiscal incentives and has already stated that it will give full and detailed consideration to the proposals of the Assembly, including its second and third reports and the forthcoming ERINI research on fiscal incentives. As the Preparation for Government Committee is aware, the request for DETI to commission an independent study into a range of fiscal measures cannot be progressed. The Secretary of State has already indicated that this lies outside of the department's remit as it relates to an excepted matter.

Recommendation 17

PfG should set new terms of reference for the economic sub-group to:

- **Consider the results of the ERINI research and the commissioned DETI study into the fiscal options to prepare a costed case for consideration by a restored Executive and the Treasury;**
- **Consider and report on measures required to develop an integrated skills and education strategy capable of meeting the current and future needs of the economy and based on best practice elsewhere; and**
- **Undertake further work on how an economic package/peace dividend could contribute to economic regeneration**

Government welcomes the Economy Sub-group's extended Terms of Reference. It has noted the recent publication of the Sub-group's second report and will be considering the further recommendations, and additional suggestions contained in the Sub-group's third report, over the coming weeks.



Recommendation 18

If an extended mandate for the sub-group is agreed by PfG, the sub-group recommends that approval should be given to temporarily contract an economist(s) as a special advisor to provide expert insight and advice on the sub-group's work and to assist in the preparation of a further report to PfG.

Government understands that economic advisors have been appointed to assist with the ongoing work of the Sub-Group.

Recommendation 19

The sub-group welcome recent efforts by the Economic Development Forum (EDF) to consult with local political parties and recommends that this political interaction should continue and be expanded to include a wider spectrum of interested organisations with a stake in the future of the Northern Ireland Economy.

Government and Economic Development Forum (EDF) members agree that local political parties are central to the debate on matters relating to the development and future competitiveness of the NI economy. It was for this reason that EDF expanded its membership in February 2005 and agreed that the local political parties should be invited to participate in the Forum: the political parties have responded positively by attending alternate meetings of the EDF. As the work of the Sub-group demonstrates, local politicians have a key leadership role. Other additions to EDF include the Federation of Small Business and an expansion in the representation from the Higher Education sector.

Recommendation 20

The sub-group recommends that the unacceptable rate of economic inactivity could be targeted by increased return to work credits through DEL, informed by research to assess the level of credit required to take people out of benefits. This would require a reintroduction of the Chancellor's Initiative Skills Fund.

Both the Economic Vision and the Regional Economic Strategy highlight the need to tackle the high levels of economic inactivity. The Department for Employment and Learning (DEL) has lead responsibility for getting people into work and the Pathways



programme is a key policy instrument to achieve this, which Government is committed to extend to all in Northern Ireland within two years, in line with available resources. DEL accepts the principle of work credits and indeed they are currently available in the Pathways programme. Return to Work Credit is proving popular with incapacity benefit claimants who are returning to work. However, proper evaluation is required to determine if it is the key factor that determines someone's decision to take that step. Only about half of those who return to work after a Pathways to Work intervention receive Return to Work Credit. This would suggest that there may be other influential factors. An interim evaluation will be conducted next Spring when there will be sufficient data to provide a robust analysis.

Recommendation 21

The sub-group took into consideration the evidence submitted by witnesses and recommends that an economic package should focus on the following 4 key areas:

- **Community regeneration (urban and rural)**
- **Infrastructure**
- **Education and skills; and**
- **A cocktail of fiscal incentives capable of attracting FDI and encouraging the growth of high value added indigenous companies.**

Government notes the views of the sub-group regarding the components of an economic package. It also notes that the second report addresses these issues in greater detail and are currently giving that report and its further recommendations full and detailed consideration.

Appendix 2

Government Response to Second Report on the Economic Challenges facing NI



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20
30 December 2006

**THE COMMITTEE ON THE PREPARATION FOR GOVERNMENT'S 2nd REPORT
ON THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND**

Thank you for providing the 2nd report on the economic challenges identified by the Assembly's Economic sub-group. My Ministerial colleagues and I have considered the ten recommendations in the report and Government's response is attached. As with the 1st report, many of the responses are necessarily framed in the context of the ongoing Comprehensive Spending Review. It is only when this exercise and its associated studies are completed that Government (which I expect will be a devolved administration) will be in a position to decide on competing public expenditure priorities.

I hope that the Programme for Government's new Sub-group on the economy will find this response helpful. A response on the 3rd report will issue as soon as possible.

**THE RT-HON PETER HAIN MP
Secretary of State for Northern Ireland**



Annex

GOVERNMENT RESPONSE TO THE COMMITTEE ON THE PREPARATION FOR GOVERNMENT'S 2nd REPORT ON THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND

Recommendation 1

That as part of a political agreement to restore devolution in Northern Ireland, the government agrees to provide the new devolved administration with an economic package, comprising a mix of reforms, financial investments and other measures, which will enable a step change in the Northern Ireland economy and lead to sustainable economic growth.

The Preparation for Government Committee will be aware that the Chancellor and Secretary of State have met leading members of the local political parties to discuss the future economic progress of Northern Ireland. The Chancellor has set out a funding package for the Northern Ireland Executive that will follow a final political agreement. This proposed package includes a Comprehensive Spending Review (CSR) settlement to March 2011 which would be significantly better than those imposed on Whitehall departments so far. These have resulted in either real reductions or flat growth at best.

In terms of stimulating greater economic growth, the Economic Vision for Northern Ireland, endorsed by the local political parties, identifies low productivity and high economic inactivity as the major challenges for the economy. The Regional Economic Strategy will set out in greater detail the agenda for securing the goals of Economic Vision through investment in the four productivity drivers of infrastructure, skills, enterprise and innovation. The Regional Economic Strategy should be released within the next few weeks. The consultation period will span the standard 12 week period and representations from all stakeholders including the local political parties will be sought. In parallel, work to develop indicators and appropriate targets is also continuing over the coming weeks and this will be taken forward by DFP, in conjunction with representatives from DETI and the Economic Development Forum.

Recommendation 2

That tax reforms are required to produce the necessary degree of economic uplift sufficient to raise Northern Ireland from its entrenched position as the UK's poorest region and, as such, tax reforms must form the core element of an economic package.

The Government accepts the views expressed in the 2nd report that low productivity and low incomes are key challenges for economic policy in Northern Ireland. However, as the report has also highlighted, it is equally important to stress the positive developments in the economy. Unemployment has more than halved over the last ten years; employment growth has been one of the highest of all UK regions over the same period; and, in the latest year for which data is available (2005), the growth in NI output was broadly in line with the UK (NI – 3.8%; UK – 3.9%). Government nonetheless accepts that much remains to be done in order to make the economy more sustainable going forward and, as the Economic Vision highlights, all stakeholders have a role to play.

On the issue of tax reforms, as a means of accelerating economic growth, Government previously indicated that it was aware of the ongoing research project on corporation tax being conducted by the Economic Research Institute of Northern Ireland (ERINI). The ERINI report has now been published and it suggests that there are benefits to the local economy from a reduced corporation tax rate. However, some concerns remain over the methodology employed and the policy assumptions adopted. The Government is also concerned about the wider implications for the UK economy and its other regions.

Recommendation 3

That the government consider the evidence submitted by witnesses that establishes a strong case for Northern Ireland having a competitive rate of corporation tax and should take full account of imminent research reports by ERINI into FDI and corporation tax. The sub-group recommends that the government should engage with the political parties with a view to addressing the issue as part of an economic package.

Issues relating to the ERINI study are addressed in Government's responses to recommendations 2 and 4.

In terms of Government's engagement with the political parties, members of the Economic Sub-group will be aware that the Economic Development Forum (EDF) has discussed the issue of fiscal incentives at a number of its plenary meetings (March and September 2006) and representatives of the parties were present for these discussions. Moreover, Government is continuing to engage the political parties and key stakeholders on matters relating to the future competitiveness of the NI economy.

Recommendation 4

That R&D tax credits should be given a lower priority in any package than reduced corporation tax, but if reduced corporation tax is unavailable then higher R&D credits should be tried. Reduced corporation tax may be more effective in bringing R&D incentives firms into Northern Ireland. If these arrive, means should be explored to increase the amount of R&D undertaken by those firms in Northern Ireland. One potential route is to explore a mixture of reduced corporation tax and R&D tax credits but the sub-group views reduced corporation tax as more important.

The issue of corporation tax has been raised in the recent ERINI publication. While the ERINI research indicated that a reduced corporation tax rate would have some long-term benefits for the local economy, there are concerns over the methodology and policy assumptions employed as part of the study, particularly in terms of the UK economy and its other regions. The Government fully understands the importance of R&D tax credits in encouraging businesses in Northern Ireland to undertake higher levels of R&D and is committed to ensuring they play a full and effective role in economic development policy.

The committee is aware that Professor Harris (who conducted the R&D tax credits analysis) concluded that there is a need to widen the 'R&D base' in Northern Ireland, by increasing the number of firms undertaking R&D and also by raising levels of R&D/innovation expenditure. The essence of Professor Harris' conclusions is that there are more fundamental reasons why firms do not invest in R&D. These include administrative complexity, firms' absorptive capacity / size and a lack of awareness of the tax credit, aside from the cost of undertaking R&D. Government has therefore offered, as part of the Chancellor's economic package, to work with the Northern Ireland Executive to simplify the R&D tax credit rules and more actively promote take up of the R&D tax credit in Northern Ireland.

Recommendation 5

That fuel duties in Northern Ireland should be equivalent with the lower duties in the Republic of Ireland. An extensive study should be undertaken of what the net loss of revenue might be. This should take into account additional tax revenue flowing from any higher consumer spending that may accompany lower costs of fuel.

In its response to the Northern Ireland Affairs Committee (NIAC) report into organised crime, the Government rejected the recommendation in the NIAC report on fuel duty equalization. The recommendation was rejected because regional variation in duties would compromise the established principle of unitary taxation, with cost implications for the Exchequer.

Recommendation 6

That, in order to offset the higher costs of energy, including the Climate Change Levy, the government should revisit its undertaking to contribute £30 million per annum to reduce energy costs. This undertaking was deemed to contravene state aid rules and the sub-group's view is that the case should be examined for using this money to cap industrial rates.

As indicated in the response to the 1st report, Government will be considering alternative economic initiatives to promote business growth and development in the context of 2007/08 allocations and the Comprehensive Spending Review. Ministers continue to consider the issue of industrial de-rating and it was recently announced that industrial rates would be held at 30% until after April 2007. With regard to the proposal to reduce energy costs, the Ballylumford Contract Buy Out (CBO) intervention was over 8 years, at an estimated cost of £190 million. The estimated cost of the first year (2004/05) was £30 million, with payments declining to £18 million in the final year (2011/12). It should be noted that the 2007/08 allocation was £20.7 million.

Recommendation 7

That a study be undertaken on the impact of the Enterprise Zones previously established in Northern Ireland with an assessment of the potential for using Enterprise Zone incentives to aid regeneration in Belfast and other cities and towns throughout Northern Ireland.

Enterprise Zones were created in 1980 to assess how industrial and commercial activity could be encouraged by the removal of certain fiscal burdens and other statutory / administrative controls. Two sites were designated in Northern Ireland, one in Belfast in 1981 and the other in Londonderry in 1983, along with 23 sites in the United Kingdom. In 1988, a report evaluating the Enterprise Zone in Northern Ireland was published that assessed:

- The extent to which the zones had maintained and/or generated additional economic activity and employment, both in their own zone and in their local areas; and
- The extent to which the zones have contributed to the physical regeneration of their local areas through the provision of infrastructure, environmental improvement and the stimulation of local property markets.

The main findings of the evaluation were that the Enterprise Zones represented poor value for money and also generated significant displacement effects within the sub-regions. This experience concurred with findings elsewhere in the UK and no new Enterprise Zones have been created nationally in the last 10 years. There are currently no plans to re-introduce Enterprise Zones in Northern Ireland.

Recommendation 8

That an economic package should include additional investment in a number of areas of importance in supporting a competitive economy. These are:

a. Transport Infrastructure

- **A number of key strategic routes are of particular importance and the whole of these routes should be brought up to dual carriageway standard. These priority routes are:**
 - **Upgrading the remaining single-carriageway sections of the A8 Larne to Belfast Road to dual carriageway.**
 - **Upgrading the N2-A5 road from Dublin to Derry/Londonderry to dual carriageway standard throughout in partnership with the Republic of Ireland.**
 - **Upgrading the A6 road from Toomebridge to Dungiven to dual carriageway. This proposal, taken with plans to upgrade the road from Dungiven to Derry/Londonderry, would bring the entire Belfast/Derry/Londonderry road up to dual carriageway standard.**
 - **Upgrading the A4 route from the motorway to Enniskillen up to dual carriage way standard with further study to cost links at this standard to the southern road system at Sligo with the co-operation of the Republic of Ireland.**
 - **Linking the M1 and the M2 via the International Airport with a dual carriageway.**
 - **Establishing a strategic link between the South East and the Belfast/Dublin corridor.**

The estimated costs associated with upgrading to dual carriageway for these routes are presented in the table below. However, it should be noted that Government already has current plans and proposals for these key transportation routes, which are as follows:

- On the A6: Dualling 30 km from Derry to Dungiven including a bypass of Dungiven, dualling 14 km between Randalstown and Castledawson;
- On the A5: 30 km of new route to 2+1 standard, including bypasses of New Buildings, Maghermason, Strabane and Sion Mills along with other 2+1 schemes along the route;

- On the A4: 20.5 km of high standard dual carriageway from Dungannon to Ballygawley roundabout and 6 flyover-type junctions, 3.8 km of single carriageway realignment at Annaghilla with an eastbound 2+1 lane; and
- A8(M)/M2: Improvement to link the A8 to the M2 motorway to reduce delays at Sandyknowes roundabout.

Costs of upgrading key routes within Northern Ireland to dual carriageway standard over and above existing plans/proposals		
ROUTE	Length Km	Approximate Cost £m
A8 Larne – Belfast	16.3	120
A5 Londonderry – Dublin	88	645
A6 Londonderry – Belfast	31.1	228
A4 Belfast – Enniskillen – Sligo	68.4	502
M1 – M2 Link (Moira – Templepatrick via International Airport)	31.2	229
A25/B8 Downpatrick – Newry; Strategic Link between the South East and Belfast – Dublin corridor.	55	404

- **The serious shortfall of approximately £40 million in the current annual roads maintenance budget should be addressed as a matter of urgency.**

The budget allocation for Roads structural maintenance was set by the Government in light of competing public expenditure priorities. The future resource needs for this programme will be carefully assessed within the framework of the Comprehensive Spending Review.

- **A Belfast Area Rapid Transit system should be created and the services in the key network routes throughout Northern Ireland should be upgraded.**

The Belfast Metropolitan Transport Plan includes proposals for a pilot rapid transit scheme in the Eastern corridor towards Comber/Newtownards and a rapid transit

line to the Titanic Quarter and City Airport. Both proposals are currently being assessed in terms of value for money and affordability. It should also be noted that Goldliner services have been improved, with additional services and new buses. Further enhancements will be kept under review.

- **A railway spur connecting Belfast International Airport to the existing network should be developed.**

There are no current plans for a railway spur to Belfast International Airport (BIA). Department for Transport guidance indicates that a railway link is not justified for airports with a passenger throughput of less than 10 million per annum. The throughput of BIA is currently 4.8 million per annum.

- **Investment is necessary in the rail network and infrastructure particularly the Dublin / Belfast, Belfast / Larne and Belfast / Derry / Londonderry rail routes with extensions to the Donegal and North West corridor.**

Government is investigating the potential for improvements to the Belfast/Dublin rail service. This investigation consists of two elements, an increase to service frequency and a shortening of journey time. With regard to the latter, a preliminary study estimated that the cost of reducing the journey time from 112 to 88 minutes would be at least £650million. The remainder of the rail network in terms of its potential and future needs is being considered by a DRD/SIB/DFP/Translink group. This group is studying the impact of the recent investment in new trains and improved track within the core network and will also make an assessment of the implications for the wider network (including the lines to Larne and to Derry/Londonderry). Government currently has no plans to extend the rail network into Donegal.

b. Business Support Measures

- **That a series of small scale challenge funds should be designed to conduct experiments in ways of advancing economic development among small and medium sized firms in manufacturing, tradable services and tourism.**

The recommendation of establishing small scale challenge funds for SMEs would be an issue for the devolved administration. However, there are already a number of business support programmes available to SMEs and any new challenge funds should take these into account to ensure value for money and avoid duplication of provision.

As any new funding programmes will require State Aid approval, it would be important to initially establish whether specific issues can be addressed through greater flexibility of existing programmes.

- **That there should be a package of measures to stimulate the export performance of Northern Ireland SMEs. This would include measures to increase awareness of export opportunities, consolidation of existing support programmes and a new suite of targeted support tools.**

Under the Passport to Export Programme, Invest NI currently provides a comprehensive package of support measures aimed at encouraging Northern Ireland SMEs to begin exporting their products / services and increase their sales in overseas markets. Invest NI will also be introducing an export awareness programme, which is specifically designed to stimulate export interest among inexperienced exporters and companies new to exporting.

Invest NI has recently put in place a dedicated Food Division, which has introduced a range of measures to help local food and drink production companies compete in markets outside NI. These measures include improved market intelligence, opportunity identification, lead generation and skills development.

- **That there should be an Enterprise Growth Fund comprising a loan fund and equity fund to work together to increase the number of business start-ups, promote social economy enterprises and also to enhance the all-island business co-operation model.**

Government recognises that a variety of funding mechanisms have a role to play in encouraging enterprise. However, there are already a number of private sector providers of loans and equity finance. Invest NI has also established the NITECH Growth Fund, as a venture capital fund, to finance the commercialisation of technology within new-start or existing businesses. In addition, Invest NI is currently exploring the establishment of a seed corn fund of £2 million to assist technology based, high growth potential spin-outs from the two NI universities.

With regard to social economy enterprises, Invest NI's Social Entrepreneurship programme contains a significant loan fund element, which is provided by the Ulster Community Investment Trust (UCIT). This loan fund element aims to encourage sustainability and a commercial approach at start up. UCIT also have plans to operate on a cross border basis and this compliments InterTradeIreland's work on seed fund and capacity investment.

c. Technology and Knowledge Transfer

- **That the creation of a Knowledge Bank to aid in technology transfer should accompany increased public investment in the science base.**

In its response to the 1st report, Government indicated that it was aware of the Knowledge Bank concept and considered that it is very similar to the Client team approach adopted by Invest NI. Officials will continue to monitor developments on the operation of the Knowledge Bank in Wales to ensure that key lessons are learnt for NI.

Government also recognises that Northern Ireland needs to have a stronger science base and that there should be a greater level of technology transfer to local firms. Knowledge transfer is a key strategic priority and there are already a number of existing initiatives in place. These include the Higher Education Innovation Fund (HEIF), the Proof of Concept programme, Knowledge Transfer Partnerships and the START programme. In addition, a Higher and Further Education Collaboration Fund will be introduced next April by DEL. This fund is designed to complement HEIF and other existing knowledge transfer initiatives and lead to greater exploitation of knowledge and technology within Universities and Further Education Colleges. It should also be noted that DETI has established a NI Science Industry Panel which includes representatives from key knowledge intensive businesses. The panel will provide advice and guidance to Government on the priorities for the commercialisation of Northern Ireland's technology and R&D base.

- **That there should be support for the joint plan by the two universities to increase the number of PhDs in the 5 key technology areas of the Regional Innovation Strategy – 80 PhDs at a cost of £10 million.**

Government is aware of a joint paper by the two NI Universities to increase the number of PhDs and that it was recently submitted to the Economic Development Forum's Innovation Sub-group. In order that this proposal is given full consideration, DEL, as part of the Comprehensive Spending Review, will be discussing with the universities:

- The current number of PhDs and the proposed increase;

- The proportion of additional PhDs to be funded by DEL and the proportion of those to be funded from external sources, particularly charities, industry and Research Council projects; and
 - An analysis of the capacity of the local economy to absorb this increase in PhDs across each of the five priority Regional Innovation Strategy sectors.
- **That Northern Ireland's comparative strength in Broadband coverage should be enhanced by an upgrade in Broadband capacity to 8Mbps at an estimated cost of £8-10m.**

Government agrees that Northern Ireland's telecommunications infrastructure must continue to be upgraded in order to remain competitive. The proposed speed of 8Mbps will only suffice for the short term and the cost of delivering 100% access to higher broadband speeds throughout NI may exceed £8-10m. DETI is therefore considering how best to engage with the private sector to lever the investment required to ensure that all of Northern Ireland continues to have access to competitive next generation broadband services.

d. Expansion in University Places

- **That further expansion of student places should take place.**

Government acknowledges that there has been an increasing debate on the number of full-time undergraduate places in Northern Ireland. DEL published a position paper in November 2005 which considered the wider strategic context and how changes, especially in relation to the introduction of variable deferred fees, might impact on the need for more places locally. The paper also highlighted that an increase in Maximum Student Number (MaSN) would cost Government £6.7m for each additional 1000 places.

The consultation period on this paper closed on 31 July 2006 and DEL received 17 responses. The exercise did not provide compelling evidence that the policy on MaSN should be changed when considered against other competing demands.

A number of relevant research projects are also under way to inform the debate on the expansion of student places. In particular, a programme to assess the impact of

Higher Education Institutions on regional economies is currently being commissioned in conjunction with the Economic and Social Research Council. This research is likely to include an assessment of the impact of students on local economies. Government will therefore keep the position of student places under review taking account of emerging research findings

e. Tourism

- **That the reconstruction of facilities around the Giants Causeway needs to be accelerated and extended. (£38 million)**
- **That the development of the Titanic Park in Belfast is an urgent priority that should help to attract the growing cruise-ship market. (£90 million)**
- **That there is a case for public support for the Walled City of Derry, Christian Heritage / St. Patrick and the Mourne National Park Area projects. (totalling £20 million)**

Progress is being made in relation to the development of the detailed design of the new visitor Centre at the Giant's Causeway. Central to this is the satisfactory completion of an Environmental Impact Assessment and a Traffic Impact Assessment. Both are underway and will be completed early in the New Year. Following this it is proposed that a planning application for the new visitor centre will be submitted.

A Titanic Signature Project application, on behalf of the Titanic Alliance, was short-listed by the Big Lottery in August 2006. It is currently subject to detailed appraisal, and funding decisions will take account of that appraisal and the outcome of the Big Lottery Fund application.

The initial phase of the Walled City Signature project is near completion. This has included a visitor signage and orientation plan, refurbishment of the Tower Museum, New Armada Exhibition and Story of Derry and lighting strategy. The St Patrick signature project, on behalf of Armagh Down Tourism Partnership, has been successfully accepted by the Tourism Development Scheme, administered by NITB. This identifies the need for signage along the 100 miles route from Bangor via Downpatrick to Armagh. The Mourne National Park working party is awaiting the

results and findings of the public consultation (closing January 2007) on the potential development of a National Park in the Mourne Area of Outstanding Natural Beauty.

- **That studies should also be undertaken of the viability of other tourism projects. These include the renovation of the Ulster Canal to promote holidays afloat and the further development of golf infrastructure facilities to an international standard.**

A number of other tourism projects, including golf resorts, have already been identified by NITB as part of the Signature Projects and Winning Themes programmes.

With regard to the Ulster Canal, officials North and South are considering available options, including the scope for a partial re-opening of the canal.

All major projects will be subject to economic appraisal, affordability and statutory procedures.

- **That government assistance for the promotion of tourism events should be increased. Support has declined in recent years to £2m in 2005/6, and could be doubled, to enhance the attraction of major sports and cultural events.**

Whilst funding decisions must reflect competing priorities, Government will consider whether more could be done to encourage major tourism, sports and cultural events in Northern Ireland. Events support is currently provided through the NI Events Company and, as part of the Review of Public Administration, the company will be merged with the NITB. Looking forward, NITB recognises the potential that major sporting and cultural events have in promoting the image of NI and their role as a driver for short breaks. Funding for these will be reviewed in the CSR.

- **That further investment in tourism infrastructure needs to be encouraged**

Work has already commenced on these important projects and some elements of funding have already been put in place.

f. Other Proposals

- **That the proceeds from the sale of underutilised public assets be retained in Northern Ireland.**

Receipts generated through the sale of public assets in Northern Ireland are already retained within the Northern Ireland public expenditure system.

- **That an infrastructure fund should be established to overcome our infrastructural deficit.**

The Investment Strategy for Northern Ireland (ISNI), announced in December 2005, is focused on upgrading the infrastructure network in a wide range of areas, including: roads, transportation, health, water network and education. The delivery of these priorities is reflected in the significant increases in capital expenditure witnessed over recent years with investment of £1,339m planned for 2007-08. Nonetheless Government's wish is that that infrastructure in Northern Ireland is upgraded as quickly as possible to facilitate economic growth (acknowledging its role as a key 'driver' in the Economic Vision). Therefore, Government will consider additional resourcing for infrastructure, within the ISNI envelope, and further increases if additional public expenditure can be made available. This was acknowledged by the Chancellor in his proposed package which allocated additional resources to investment, exceeding the original ISNI funding envelope.

- **Subject to a transparent business/economic appraisal, there should be an acceleration of the redevelopment of the Maze prison site.**

DCAL are working with consultants to produce a business plan for a modern multi-sports stadium for the Maze and have taken steps to procure a multi-disciplinary Design Team for the project.

- **That a Unit within Planning Service should be created to provide more in the way of tailored guidance for businesses in making their applications and for fast-tracking the processing of the applications.**

As detailed in Government's response to the committee's 1st report, Planning Service has already created a new Special Projects unit within its Strategic Projects and

Design Division. This has been fully functioning for the past year and early indications are that it is proving to be very effective. Extensive advice is provided at the pre-application stage on major developments and this has ensured their efficient progress through the system. Examples include the recent approval for Coca Cola of their new Ireland HQ at Lisburn and the current application for IKEA.

- **That an investment programme in energy conservation measures and technologies could lead to significant savings for local businesses**

DETI's Strategic Energy Framework and the NI Sustainable Development Strategy both address the issue of energy efficiency through a number of support programmes. These include Invest NI's Energy Development Programme, which includes the Carbon Trust programme of activities; the Carbon Trust Loan Fund; and the Invest NI SME Grant Scheme. DETI will continue to assess these programmes to ensure they increase the delivery of energy efficiency, improve renewable technologies and increase the competitiveness of businesses.

- **That there should be an extension of energy efficiency programmes and support measures to eradicate fuel poverty.**

Northern Ireland has proportionately the highest level of fuel poor households in the United Kingdom, although this has been declining in recent years. The energy efficiency measures carried out by DSD through initiatives such as the Warm Homes Scheme and the Housing Executive's schemes for new heating systems have contributed to this reduction in fuel poverty. However, more needs to be done if the targets set out in the Fuel Poverty Strategy are to be met. DSD is therefore aiming to extend the Warm Homes Plus scheme to everyone who is in fuel poverty regardless of age. In addition, other initiatives such as providing solar hot water heating panels for all families in fuel poverty are also under consideration. DETI has also committed to improve energy efficiency as part of the Strategic Energy Framework. An associated target in the framework is to reduce the trend in electricity demand by 1% annually until 2012 without compromising economic growth.

- **That there should be provision of state-funded free personal care.**

Any decision on the introduction of 'free' personal care is a matter for a devolved administration in the context of existing social care and other priorities. Government would note, however, that such a commitment would need to take account of experience elsewhere. Also the resources required for state funding of personal care would have to be found from within the Northern Ireland budget and, given the unequal impact in terms of those benefiting from a scheme, there may be a conflict with the principle of 'greatest need first'. Furthermore, it is not clear how any decision to introduce a scheme on a limited basis, as in Scotland or Wales, would comply with Section 75 requirements in Northern Ireland. It should also be noted that the Welsh Assembly dropped its plans on the basis of equity and affordability.

- **That a review of special needs education provision across Northern Ireland should take place to identify opportunities for investment in increased provision to promote greater social cohesion.**

DE commenced a review of special education needs and inclusion in April 2006 and it is anticipated that this review will be completed by January 2007. The aim of the review is to bring forward comprehensive and cost effective recommendations for special educational needs / inclusion. The review will have particular regard to continuity and quality of provision; equality of access; consistency of assessment and provision; delivery and funding and accountability mechanisms; value for money; affordability and monitoring arrangements.

- **That there should be a more pro-active targeting of financial and business service companies with the view to locating in Northern Ireland, in recognition of the increasingly prominent role that financial and business services play in boosting productivity and wages.**

Government acknowledges the importance of improving productivity within the private service sector. Financial and Business services are predominantly high productivity sectors and are key target areas for Foreign Direct Investment. Invest NI continues to promote the region as a good investment location and the campaign

is building on recent inward investment successes in Financial and Business services.

DEL also recognises the importance of ensuring skills availability in these sectors and has agreed to establish two clusters in ICT and Financial Services in order to support the growth of companies in these areas and to attract further Foreign Direct Investment.

Recommendation 9

That as part of an economic package, additional finance should be made available to facilitate some refocusing of priorities and resources in favour of economic development.

The ongoing National Comprehensive Spending Review (CSR) will determine public expenditure allocations for Northern Ireland for the period 2008-09 to 2010-11. These allocations will be determined principally by application of the Barnett Formula to comparable spending areas in Whitehall Departments. Northern Ireland Ministers will then have full discretion on how they allocate these funds over the CSR period. This means that local Ministers can determine (and fund accordingly) the relative priorities of Government, including economic development. The proposed package as outlined by the Chancellor on 1 November acknowledged the importance of promoting economic development, especially in areas such as innovation and infrastructure improvement. The Chancellor also outlined his intention to set up an Innovation Fund to support R&D and innovation in NI businesses / research.

Recommendation 10

That a new devolved Executive makes provision for a centralised and structured approach to implementing the economic package and to co-ordinating and monitoring operational delivery across the various government strategies which impact on the economy.

This recommendation would be a matter for the new devolved Executive.

Appendix 3

Government Response to Third Report on the Economic Challenges facing NI



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Private Secretary to the
Secretary of State for Northern Ireland

Mr John O'Dowd MLA
Chairman of the Assembly
Sub-Group on Economic Issues
Parliament Buildings
BELFAST
BT4 3XX

10 January 2007

Dear Mr O'Dowd,

**THE COMMITTEE ON THE PREPARATION FOR GOVERNMENT'S 3rd REPORT ON
THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND**

Thank you for your letter of 14 December requesting responses to the Sub-Group's 2nd and 3rd Reports on the economic challenges identified by the Assembly's Economic sub-group.

You will have received the Government's response to the 2nd Report under cover of my letter of 20 December 2006. The Secretary of State and Ministerial colleagues have now considered the twelve recommendations in the 3rd Report and Government's response is attached. I hope that the Sub-Group will find this response helpful.

You also requested that a Minister attend a meeting of Sub-Group in January to discuss all three Reports. David Hanson has agreed to attend on 18 January and I should be grateful if the Clerk to the Sub-Group would contact his diary secretary, Mark McConville (028 9037 8184), to confirm the arrangements.

Yours sincerely,

MARK LARMOUR
Private Secretary



ANNEX A

FISCAL AND FINANCIAL INCENTIVES

Recommendation 1

That the Minister, Maria Eagle MP, should meet with the sub-group to provide a comprehensive response to its three reports.

The Secretary of State has agreed that David Hanson will attend the Sub-Group meeting on 18 January 2007.

Recommendation 2

That the political parties consider the merits of the proposal from the Federation of Small Businesses for a 'Rates Reinvestment Fund' as part of the ongoing discussions with Treasury on an economic package.

The Federation of Small Businesses (FSB) proposal for a rates-reinvestment fund is a recent development.

The FSB proposal could be associated with the small business relief scheme introduced in Scotland in 2003 and in England in 2005. However, when its effectiveness in Scotland was reviewed, the outcome was not entirely positive.

The Government is waiting for the scheme in England to bed in before its possible introduction in Northern Ireland. A second review in Northern Ireland has been agreed for 2007. It is possible that this review of industrial de-rating will be coupled with a small business relief scheme.

ERINI RESEARCH ON CORPORATION TAX

Recommendation 3

That PFG Committee and the Secretary of State take note of the ERINI research conclusions, which underscore the case for Northern Ireland having a competitive rate of corporation tax, and that this key research should be used to inform discussions.

The Secretary of State has received the ERINI publication on corporation tax. The Government believes that prevailing corporation tax rates place the UK economy in a competitive position internationally. It is also important to note that 96 per cent of Northern Ireland companies do not pay the 30 per cent tax rate. The effective tax rate is very often considerably lower. This is what should be assessed when comparisons are made with the Republic of Ireland. It is also important to appreciate that corporation tax rates were not the sole factor contributing to the high economic growth rates recorded in the Republic of Ireland – other factors such as skill levels, demography, and productivity all played a critical role.

In relation to the economic package, discussions with Government are already in progress and the Chancellor of the Exchequer has already made an announcement in relation to public expenditure allocations to Northern Ireland in the event of the early restoration of devolution.

EDUCATION AND SKILLS

Sub-group Recommendation 4

The Sub-Group recommends that there is a need for clarity over the future of education in Northern Ireland. It further recommends that account should be taken of any strategic financial/policy implication which may arise out of the Bain Report. (Paragraph 31)

The Government acknowledges that this is a period of major change for the education service. Important reforms are being implemented in relation to the curriculum and broadening the learning entitlement for every young person. A well-supported implementation programme is already under way. A further key component is the basis on which pupils should, in future, transfer from primary to post-primary school and that it will be a matter for the urgent attention of the Assembly so as to end the present uncertainties for pupils, parents and schools.

The Bain Report on the Strategic Review of Education was published on 4 December and on 12 December the Government signalled its broad acceptance of the Report's recommendations. The Report addresses the important issues of funding education, planning of the education estate, and increasing sharing and collaboration across schools. The Government will be publishing an implementation plan shortly setting out how action will be taken on the Review. In preparing and delivering the plan the Government will be taking account of any financial and policy implications arising from the Review Report.

Recommendation 5

That special attention should be given to science, technology and engineering as part of an integrated education and skills strategy.

The Government accepts the view that science, technology and engineering are fundamental to a knowledge-based economy and has asked the Departments of Education and Employment and Learning to undertake a fundamental review of science, technology, engineering and mathematics (STEM) in schools and further education. The review will engage with industry, universities and the professional bodies.

Recommendation 6

Greater urgency, recognition and action in Northern Ireland to avoid a potential shortfall in the skills base needed to support a knowledge-based economy.

The review of STEM will be undertaken between February 2007 with a final report in Autumn 2007. It is the intention to produce a 10-year strategy for the development of STEM to support industry. Early conclusions from this review will be taken into account in the Comprehensive Spending Review.

Recommendation 7

That key lessons can be learnt from the Republic of Ireland (RoI) approach to education and skills development focussed on the needs of the economy, and recommends that government departments should seek to apply these lessons as appropriate to circumstances in Northern Ireland.

The Departments of Education and Employment and Learning work closely with their colleagues in the RoI to share best practice. The Department for Employment and Learning (DEL) has established a Skills Expert Group similar to that in the RoI in order to ensure that education and skills development is focussed better on the

needs of the economy. The two Skills Expert Groups met recently to agree joint work to the mutual benefit of both jurisdictions.

Recommendation 8

The recognition of the important contribution of Sector Skills Agreements to identifying skill requirements and improving the delivery of training and education through a partnership approach and collaborative action between employers and education/skills providers. There is a need to develop and adequately fund this approach as part of a flexible strategy linking the supply of skilled labour to the needs of business and economic growth.

Government fully supports the Sector Skills Development Agency and the Sector Skills Councils, and welcomes their progress to date. The Sector Skills Agreements when fully developed will provide crucial information to the Skills Expert Group in support of developing a demand-led system of skills provision. "Success Through Skills" - the Skills Strategy for Northern Ireland commits to raising the profile of the demand side, existing and potential, and improving the flow of labour market information including, crucially, the information from Sector Skills Agreements, in order to improve the relevance, coherence, response and quality of current education and training provision. The work of the Sector Skills Development Agency with the Sector Skills Councils in developing the National Occupational Standards is fundamental to ensuring that qualifications offered by education and training are based on the needs of employers.

Recommendation 9

That the Department of Education urgently addresses poor literacy and numeracy among school leavers, and that the Department for Employment and Learning develop creative approaches to lifelong learning opportunities that allow less able school leavers to reach their full potential in skills attainment to find employment.

Average levels of performance in literacy and numeracy in Northern Ireland schools compare favourably with the rest of the United Kingdom and most Western European countries. The Government accepts that there are a number of concerns such as the under-performance of boys relative to girls, the differences in performance between the two main communities in areas of disadvantage and the gap between high and low performing schools. The Committee will be aware of recent criticisms by the Public Accounts Committee.

The Department of Education is in the process of reviewing its school improvement policy and its literacy and numeracy strategy and will be publishing proposals in the near future.

Government is committed to ensuring that all young people, irrespective of their ability reach their full potential. It agrees that specific support and initiatives are, however, needed to help less able young people. The new Professional and Technical Training programme "Success Through Training" for 16-18 year olds (age 22 for those with a learning disability) (from September 2007) has a strand aimed specifically at helping less able and those young people with a range of personal development needs. In addition, evaluation of the initiatives under Renewing Communities will provide evidence on the success of initiatives aimed specifically at less able young people.

Recommendation 10

That, in the context of developing an integrated skills and education strategy to support economic development, the Government should give careful consideration to the proposals from the two universities for additional investments and related actions to maximise their potential contribution to the development of a sustainable knowledge-based economy.

In its response to the 2nd report, Government indicated that it was aware of the joint paper "The Current Economic Impact of the Northern Ireland Universities and Enhancing their Role in the Future Economic Development" prepared by the two Universities and presented to the Economic Development Forum (EDF). This will be

given full consideration as part of the Comprehensive Spending Review. DEL has asked the two universities to consider specifically their role in supporting the skills needed by a knowledge-based economy. This will be discussed with the EDF sub-group on skills.

Recommendation 11

That Government and a restored Executive should carefully study the measures proposed by UU Tech Ltd with a view to developing strategies to identify, resource and market university and FE college links to business both in Northern Ireland and internationally.

Government is aware, through the joint Universities' paper referred to in the above response to Recommendation 10, of their recommendation to increase the number of PhDs. This will be discussed with the Universities as part of the Comprehensive Spending Review. The Government has a number of strategies to promote university and FE college links to business. In its response to the 2nd report, Government indicated that a Higher and Further Education Collaboration Fund will be introduced by DEL next April. The fund is designed to complement the Higher Education Innovation Fund and the other existing knowledge transfer initiatives and lead to greater exploitation of knowledge and technology within Universities and Further Education Colleges. It should also be noted that the Department of Enterprise, Trade and Investment has established a Northern Ireland Science Industry Panel which includes representatives from key knowledge intensive businesses. The panel will provide advice and guidance to Government on the priorities for the commercialisation of Northern Ireland's technology and research and development base.

WATER REFORM

Recommendation 12

That, as part of an economic package:

- a) The Water Reform legislation is deferred and dealt with as an Assembly matter;**
- b) The public services funding gap caused by this deferment and the capital backlog, or at least a significant percentage of it, be paid for by Government as additional funding.**

The sub-group further recommends that the Secretary of State commission an independent study to accurately review all aspects of the water reform proposals during the deferment period.

The Secretary of State addressed these points in his letter of 28 November 2006 to Nuala Dunwoody, Clerk Assistant, Clerk to the Committee on the Programme for Government on 28 November 2006 (see attached).

The Water and Sewerage (Northern Ireland) Order 2006 was approved by Privy Council on 14 December 2006.

Government is committed to the Water Reform Programme and to the introduction of domestic water charges from 1 April 2007 as part of its programme of public service reinvestment and reform.

Appendix 4

Official Report of the Evidence Session with Minister David Hanson MP

Thursday 18 January 2007

Members present for all or part of the proceedings:

The Chairman, Mr Thomas O'Reilly
Mr Thomas Burns
Mr George Dawson
Ms Michelle Gildernew
Mr Mitchel McLaughlin
Mr David McNarry

Witnesses:

Mr David Hanson	} Minister of State, Northern Ireland Office
Mrs Nuala Kerr	} Department for Employment and Learning
Mr Wilfie Hamilton	} Department of Enterprise, Trade and Investment
Mr Leo O'Reilly	} Department of Finance and Personnel

The subgroup met at 10.58 am.

(The Chairperson (Mr T O'Reilly) in the Chair.)

1. **The Chairperson (Mr T O'Reilly):** You are welcome to the Subgroup on Economic Issues. As usual, there is a tight schedule and a lot of questions to be answered. We will try to get as many questions in as possible, so I ask you all to be brief and to the point in your contributions. The Minister will begin with an opening statement.

11.00 am

2. **Mr David Hanson (Minister of State, Northern Ireland Office):** I thank the subgroup for the work that it has undertaken over the past few months and for giving me the opportunity to discuss some of the economic policy issues. The reports produced by the subgroup have been helpful to the Government, and I know that you

have received the Government's formal responses to the recommendations contained in your reports. I am grateful for the chance to attend the subgroup and to answer members' questions on any of the issues in the reports as well as on the economic challenges facing Northern Ireland.

3. First, it is important to acknowledge that significant improvements have taken place in the local economy over the past decade. There is growing employment, with unemployment here well below the UK average. I believe that economic growth can continue in the present conditions.

4. In 1989, Northern Ireland's economic output was 74.8% of the UK average, and in 2004 it was 80.2%. Employment is at a record high with over 704,000 people employed, and manufacturing output in Northern Ireland has increased by 5.7% over the past five years while there has been a decline in manufacturing output in the rest of the UK. In 2005, Northern Ireland's economic growth was 3.8%. That is broadly in line with the UK average of 3.9%, which, of course, includes London and the south-east where there is considerable growth.

5. That does not mean that I am complacent, and neither should the Assembly or the direct rule team be. Northern Ireland is becoming increasingly competitive; it is becoming one of the most competitive regions in the UK, and it is supporting growth in those job areas. However, we must carefully examine what the challenges will be. The region also remains attractive to foreign investment. Despite accounting for only 2% of the UK population, Northern Ireland now secures approximately 10% of all foreign direct investment (FDI) to the UK.

6. The regional economic strategy for Northern Ireland — on which, I hope, the subgroup will be able to comment and the Assembly will be able to implement — will shortly be put out to public consultation. The

strategy will acknowledge that more must be done in a number of areas. First, we need to do more to reduce economic inactivity. Secondly, more must be done to promote innovation and commercial research and development. Thirdly, we must ensure that the skills base of the workforce is raised. Fourthly, an economic infrastructure that is suitable for the challenges of the twenty-first century must be provided. Fifthly, Northern Ireland needs to reap the economic benefits of closer co-operation with the Republic of Ireland, the more traditional support with Great Britain and, importantly, a wider Europe over the next few years.

7. The regional economic strategy will set out the Government's commitment to focus on four key drivers that will help that economic vision. We will concentrate on skills, infrastructure, innovation and enterprise development. If the strategy is approved — and the Assembly will have a key role post any pending election to take matters forward — policy will be prioritised around those four key areas, and resources from the Department of Finance and Personnel will be focused accordingly.

8. It is also clear that there needs to be significant reform in the local economy and in public services. The emphasis of the review of public administration (RPA) was on local council reform and on reform in central Government. The Civil Service reform agenda will also deliver a radically different and more efficient public sector.

9. I hope that the Government will pledge themselves to and be committed to economic vision, but that cannot be done in isolation; the private sector also has a key role to play. The private sector in Northern Ireland must become more innovative and more outward looking, and it should have greater linkages with universities so that commercial research and development opportunities can be encouraged and exploited.

10. There is a shared agenda between yourselves and the Government in that there needs to be greater communication between business and education to facilitate the necessary upskilling of our workforce that your reports rightly point to. The experience in the Republic

of Ireland highlights the importance that investing in skills has in creating a strong economy.

11. Many economic challenges lie ahead. Everyone wants a wealthy, vibrant economy that can compete in the global marketplace. We are going to face challenges from eastern Europe, as a growing economy, China, India and other parts of the old Commonwealth, and an increasingly global economy.

12. That means that this economy must become more innovative and entrepreneurial, and we need to ensure that the infrastructure and facilities are there to support business and trade. We need to ensure that our citizens have the skills, which, sadly, many do not — not only important skills for the future, but in many cases basic skills such as reading and writing — to ensure that they can participate in the workforce and contribute to building a strong regional economy.

13. It will be a big challenge for the new Assembly and Executive, but the challenge will be same whether the Assembly or direct rule Ministers take forward these proposals. We both share the same aim for this area.

14. To sum up, our focus on skills, innovation, enterprise and infrastructure is the correct way forward, but I welcome the subgroup's comments on that. In many regions of the United Kingdom and the Republic of Ireland the same agenda is in place. We must respond positively to those issues. We must ensure that we develop a sustainable Northern Ireland economy involving many public- and private-sector workforce issues. In particular, we must ensure that Northern Ireland becomes internationally renowned for its commitment to skills, education, science and innovation and that it has support from a modern infrastructure.

15. There has been much discussion on these matters, not just in the subgroup, but also in the Economic Development Forum, which I addressed recently. We must do more for the future.

16. A lot of key issues are being addressed, many of which are in the subgroup's reports, and which my colleagues and I are happy to

respond to today. However, there are some important questions to consider, whatever happens in the future, and they are: how do we build on the manufacturing productivity gains in recent years, and how do we reverse the decline in private-sector productivity? How do we further expand into key areas of high-value-added financial and business services, when we grow from a small base with significant difficulties in Northern Ireland? How do we increase the level of process and product of R&D and innovation here? How do we encourage small businesses to grow and develop in an economy where more and more firms are becoming export orientated? How do we ensure that we increase in a service-dominated economy, where capital is paramount? How do we ensure that we attract, retain and develop a skilled workforce? Finally, how can we use the cities, and the skills in them, to enhance their contribution to economic growth?

17. It is a challenging agenda, to which the regional economic strategy will provide some solutions. I welcome the subgroup's comments and the consultations that will take place, and I hope that my officials and I will be able to deal positively with the points, Mr Chairman.

18. **The Chairperson (Mr T O'Reilly):** Thank you very much. That statement gives us some thought for questions. Before I ask George Dawson to ask the first question, I ask those accompanying the Minister to ensure that all mobile phones are switched off, as they interfere with the recording equipment, and we do not want to miss anyone's contribution.

19. **Mr Dawson:** I welcome the Minister and his colleagues. Despite the warm words this morning, the Government have previously described Northern Ireland's economy as unsustainable. This and previous subgroups have been looking for a radical approach to that, as opposed to the Government's approach, which seems to be "steady as she goes", change nothing and do little.

20. The Minister outlined a number of issues — inactivity levels, innovation, skill base, infrastructure and co-operation — with the key aim of reducing the productivity gap. If the

Government hold to their stated policies, as outlined in the various responses to our reports, then what is an acceptable productivity gap between ourselves and the rest of the United Kingdom, and when will that gap be closed?

21. Furthermore, the Minister proposed a series of challenges about building productivity, expanding high-value-added jobs, etc. Our various reports approached those matters. We have presented a radical strategy to achieve what the Government are seeking to achieve.

22. On the Government side, however, that radical strategy seems to have been rejected. We want to know how the Government propose to answer the very questions that the Minister asked this morning.

23. **Mr Hanson:** As I said in my presentation, the Government's proposals seek to consider the infrastructure that is needed. We are looking at how we can invest in roads and rail and how we can invest within the terms of the investment strategy for Northern Ireland (ISNI). The strategy represents a major investment of £16 billion over the next 10 years; with the Chancellor's package, it will increase to £18 billion. The question is how the ISNI can be used to put in place some of the key infrastructures in respect of service and support mechanisms for industry in order to make us more productive and competitive.

24. At the same time, there is a strong focus on skills, which I mentioned in my contribution. We are considering dramatically increasing the number of apprenticeships over the next few years. By 2010, we plan to have 10,000 apprenticeships in place. We are considering introducing pre-apprenticeships in schools for pupils aged between 14 and 16 to try to get them involved and interested. We are establishing education programmes at primary and wrap-around care levels to ensure that we begin the long road to improving educational ability and attainment in schools over a long time.

25. We must also consider how Northern Ireland can be marketed as a real venue for some of the financial and business sectors on the island of Ireland, in the United Kingdom and Europe. We are undertaking a tremendous

amount of work on skills development, infrastructure and investment. We are also looking at wider issues. I have considered the subgroup's suggestions; some of which we have been able to accept, others that we are able to consider, but there are some that we cannot accept. However, there is still a great role for us to work together. As you will know, George, those suggestions will be taken forward in the Assembly in due course.

26. **Mr Dawson:** Following on from that, I reiterate the main point of the question. When will the productivity gap between Northern Ireland and the rest of the United Kingdom be closed? The policies that the subgroup has put on the table have a clear time line, a clear set of targets and a clear date by when we believe that the productivity gap will be closed. What is your date for the closure of the productivity gap?

27. **Mr Hanson:** It is difficult to say in broad terms; I want the productivity gap to be closed as soon as possible and practicable.

28. **Mr Dawson:** That is all a bit motherhood and apple pie, Minister.

29. **Mr Hanson:** Yes, it is motherhood and apple pie. There are clear policies behind the regional economic strategy that consider those issues. When that strategy is published shortly, there will be clear time lines and targets to ensure that we achieve that.

30. It is a difficult situation because we are working in an economic climate that examines the entire range of those issues. However, I believe that the infrastructure investment that we are making in education will, over time, reduce the productivity gap with the rest of the United Kingdom and the Republic of Ireland.

31. **Mr Dawson:** Will the regional economic strategy put a date to that?

32. **Mr Hanson:** The regional economic strategy will be published very shortly. It is difficult for me to go into detail on what it will say until it is published. However, when the strategy is published for consultation, the Assembly and colleagues in business and in Government will be able to comment on it. There will then be an opportunity for a wide-

ranging debate on the economy. I believe that the strategy's proposals will be widely welcomed.

33. **Mr Dawson:** If there is no date for the final achievement of closing the productivity gap, the regional economic strategy will stand in stark contrast to the subgroup's proposals, which contain clear dates and time lines. Government will have to wrestle with that difference.

34. **Mr Hanson:** I intend to publish the regional economic strategy in the next couple of weeks before the likely date of any purdah before an election. There will be a 12-week consultation period. The strategy has already been revised four times following discussions with the Economic Development Forum.

35. The strategy will be subject to consultation during those 12 weeks and may well be taken forward by the Assembly. There is an opportunity for the work of the subgroup to impact on the strategy. With our officials, the Secretary of State and I, as direct-rule Ministers, have made our best guesses as to that impact. We have put in place what we can do with the resources available — in what will be a tight financial situation over the next comprehensive spending review — to make a difference on the ground.

11.15 pm

36. **Mr McNarry:** I would like to take this opportunity to thank the Minister for assistance that he gave to some young people in Comber who had a housing problem. It was very much appreciated. Perhaps he has forgotten it.

37. **Mr Hanson:** Thank you. I never forget anything.

38. **Mr McNarry:** I want to deal with education and young people's involvement in the economy. My points are brief. The subgroup recommended that special attention be given to science, technology and engineering. Does the Minister accept that recommendation? How can he help to achieve it?

39. **Mr Hanson:** The subgroup made a number of recommendations. I looked at the important question of research and development. Another subgroup has mentioned tax credits as a key issue with regard to that. I agree that the

rules on tax credits should be simplified, that their take-up should be promoted and that there should be more co-operation between universities and business on generating high-level skills.

40. The subgroup has recommended much that can be looked at by the Government and colleagues. The R&D base of industry in Northern Ireland needs to be widened. We must look at how we can develop new products and at investing in young people to get them interested in science and technology. By “young people”, I mean children who are now four- and five-years-old. We should try to get them interested in science and technology so that when they reach 16, 17 and 18 years of age, they begin their university education on a science and technology basis. We need to ensure that we have sufficient employment opportunities here to retain people who have that interest in science and technology and not lose them to the Republic, GB or Europe. Those are all major challenges.

41. There are many key points in the reports that I have assessed and acknowledged. Complete responses are before the subgroup. The Government have tried to support science through the education and library boards and through the curriculum, advisory and support services. We have tried to ensure that, through the Education and Skills Authority, there is an opportunity to put in place an effective science curriculum in schools. Those are key issues.

42. Northern Ireland will not compete effectively any longer on the basis of low labour costs. Rather, it will have to compete on the basis of innovation, skills, invention and what it can give, intellectually, to the development of products to increase their value.

43. **Mr McNarry:** I am glad that the Minister has picked up on the subject of four-to-five-year-olds. The subgroup can readily agree with what he says. My question asks, however, whether he is aware of work to kick-start that activity? One talks about these things, but someone needs to say: “Let’s do it”, particularly with regard to four-to-five-year-olds. Is anything underway?

44. **Mr Hanson:** My colleague wants to make a point.

45. **Mr Wilfie Hamilton (Department of Enterprise, Trade and Investment):** My point is about science and stem subjects. The subgroup is correct to highlight the importance of those. It is essential that they are addressed in a holistic way and that there is a link through education back to four- and five-year-olds. It is important that it starts at that stage in life.

46. In his opening remarks, the Minister highlighted the need for a more integrated approach to the economy. Whatever the subject area, it is important that every Government Department, agency, university, educational establishment and the private sector follow an integrated approach. Each knows what it can contribute and each will make that contribution. We need to move holistically and be responsive to have effect.

47. While there has been much work to date in the Department of Education, that Department has acknowledged to the Department of Enterprise, Trade and Investment and to other Departments that there is a need for a more holistic approach on stem subjects. It is absolutely vital that those subjects are protected and developed. An interdepartmental working group has just been set up to review how those subjects can best be promoted in the education curriculum. Business leaders will be involved to ensure that the systems put in place will meet business needs. That is an important process. It will ensure that, from the earliest stages of education, the needs of business will be catered for.

48. **Mr McNarry:** I am very pleased to hear about the interdepartmental working group. All political parties would like to be kept fully informed of the group’s progress.

49. **Mr Hamilton:** We can let you have the terms of reference.

50. **Mr McNarry:** Minister, the Bain Report has been published. Have the Government costed the financial implications of the report in the recommendations?

51. **Mr Hanson:** The Government broadly accept the recommendations of the Bain Report. My colleague Maria Eagle is working with the Secretary of State on an implementation plan

for those recommendations. I am hopeful that she will be able to produce that shortly — by that, I mean before the end of the month.

52. That implementation plan will detail the recommendations that the Government will accept or reject. The implementation plan will include costings and discussion as to how to take forward Sir George Bain's recommendations. I am confident that we will be able to produce the implementation plan in the next couple of weeks.

53. **Mr McNarry:** I hope that the Assembly will debate the Bain Report at 12.30 pm next Monday. As Minister Eagle has not been able to find her way here or to send any representatives to any of our subgroups, I hope that she or some of her personnel might be able to find their way into the Assembly to listen to the debate on the Bain Report. It should be interesting.

54. **Mr Hanson:** I wish to make two points on that issue. First, I am sure that officials will be in the Chamber for the debate. I am mindful, as are all direct-rule Ministers, that we are hopeful that the Assembly will take forward those matters. It is important that Ministers and officials listen to what is said in the Assembly.

55. Secondly, I am representing the Government as a whole, and I am happy to do that and to take back points to my colleagues.

56. **Mr McNarry:** I wish to make a final point about education. This subgroup has the support of the education subgroup and the Programme for Government Committee in asking for an additional £20 million for areas such as special needs, early-years development and underachievement. Would you, as Minister, support that?

57. **Mr Hanson:** I will certainly consider that. I have not had a great deal of information to date about the proposals. However, I will consider them and take it to my colleague Maria Eagle.

58. **Mr McNarry:** The proposals were mentioned in the subgroup's report. With all due respect, Minister, you have been up to speed on the questions that I have already asked. I suspect that you have had some sight of the proposals — perhaps not, but you are being

very good. Those proposals are not in the printed edition of the report.

59. **Mr Hanson:** I was talking about the education subgroup's report; I have not seen that report.

60. **Mr McNarry:** The issue is discussed in the economy subgroup report.

61. **Mr Hanson:** Yes, I have seen the economy subgroup's report, but, to date, I have not seen the education subgroup's comments.

62. **Mr McNarry:** In principle, if I were to ask for £20 million for those areas of education — for which there is a valid case — would you consider supporting it?

63. **Mr Hanson:** Certainly, the Government will consider those matters in the recommendations and in the response that we will put before the subgroup. However, I am not in a position to give a definite "yes" or "no".

64. **Mr McNarry:** I am not picking the issue above all the other recommendations, but at least three different bodies connected to the Assembly have supported that particular issue.

65. Chairman, that is all that I have to say about education. With your indulgence, I will come back after other Members have spoken.

66. **The Chairman (Mr T O'Reilly):** That is fair enough, David. Before I ask Mitchel McLaughlin to ask the next question, I wish to express my view on something that I am picking up in the meeting. Good questions are being asked about time lines, financial packages and about how plans for how things will be done are being considered. I would appreciate if issues could be tied down a little more, rather than going around in eternal circles and leaving the subgroup with no more definitive answers than when we began.

67. **Mr McNarry:** Sock it to him, Tommy. *[Laughter.]*

68. **Mr McLaughlin:** Good morning, Minister.

69. **Mr Hanson:** It is the duty and responsibility of Government, occasionally, to be evasive. *[Laughter.]* You will appreciate that shortly.

70. **Mr McLaughlin:** Normally, he is a quiet sort.

71. Minister, I welcome you and your officials. In prefacing my question, I welcome the focus on skills, infrastructure, innovation and enterprise to which you made a number of references in your presentation.

72. Will formal appraisal or economic modelling underpin the regional economic strategy? It is commonly agreed that the economy is clearly failing: current policies have not delivered the necessary solutions, the productivity gap has not narrowed, and there has been significant slippage in competition. Will the economic strategy demonstrate the unsustainability of current arrangements and set out, in formally validated evidence, the step change necessary to create a sustainable economy here? I am quite sure that members of the subgroup, and the parties to which they belong, are interested in knowing how we can bridge that gap.

73. Basically, unlike previous reports and strategies that have been rolled out periodically, will this strategy be sustained by scientific evidence that will demonstrate that it is the necessary step change?

74. I have a related question, but I would prefer to ask it after the Minister has responded to my first question.

75. **Mr Hanson:** As I mentioned in my introductory remarks, we will be seeking, through the regional economic strategy, to analyse the challenges that face Northern Ireland. We will focus on the four key areas in which we think assistance will be required. As I have mentioned, those areas are: skills enhancement; infrastructure; innovation; and promoting entrepreneurial activity.

76. The focus of the strategy will be to consider, with resources and as part of an economic model, how we can make a step change by concentrating on those four key areas. The strategy will set out the areas that require infrastructural investment, skills enhancement and so on. Therefore the draft strategy that is to be published next week will

contain analysis and focus, and, through the comprehensive spending review, the resources that I mentioned will be focused on those areas over the next three years to ensure that we make a step-change difference.

77. **Mr McLaughlin:** That might be the case, but it needs to be a step change and not just the rhetoric of “we need”. Minister, you listed what we need under a number of headings, and every one of us will accept the “we need” part of that. However, we also need timelines and dates for the application of the additional resources that will make the difference — unless the strategy is capable of demonstrating that the resources have always existed and that there has been a failure of application. That seems to be the response to our requests for additional resources. I am trying not to stray into the second point, but it is directly related.

78. We want an Executive that can succeed. I can speak only for my party, which is determined to succeed in having a devolved Assembly and Executive. However, an Executive has to be capable of delivering its Programme for Government and dealing with, for example, the skills deficit and the infrastructural deficit and their implications. The strategy that is about to be unveiled must address how the Executive would be expected to do that within existing resources when direct-rule Ministers did not manage to do so over the past 30 years.

79. **Mr Hanson:** Mitchel, as you know, the discussions that were held with the Chancellor following the St Andrew’s Agreement laid out the finance that could potentially be available to the Assembly over the next few years.

80. **Mr McLaughlin:** With respect Minister, there is no step change in that.

81. **Mr Hanson:** At the moment, a minimum of £35 billion has been allocated for the next four years. We have a longer-term capital investment plan of £18 billion, which will be in the Assembly’s gift for the next 12 years. The package also covers an innovation fund, end-year flexibility and the retention of efficiency savings that will be made. Although the current funding situation will make the financial

situation tight in Northern Ireland and in all parts of the United Kingdom for the next few years, people will still have an element of certainty in which they can plan. Following the consultation on the regional economic strategy, the incoming Assembly and Finance and Enterprise Ministers can look at allocating those resources to meet the step-change needs.

82. Considerable resources are coming into Northern Ireland — more than are coming into my own constituency — that will be committed for that certainty ahead of the comprehensive spending review, by the Chancellor, as part of the economic package.

11.30 am

83. **Mr McLaughlin:** The subgroup has not been convinced in any of its discussions, including its initial engagement with the Chancellor and subsequent discussions with the Treasury and the Department of Finance and Personnel, that there is evidence of the additional resources that are needed, other than welcome commitments of some certainty. Therein lies the conundrum. The expert testimony that the subgroup has received does not demonstrate that additional resources will be forthcoming. I want to use that as the introduction to my second question.

84. **Mr Hanson:** I want to put that into context. I am proud of the Labour Government's investment in Northern Ireland's public services and economy. Northern Ireland's economy now has twice the level of funding than in 1997, when the Labour Party inherited Government. That level of investment will continue. The Chancellor has given a commitment that a minimum of £35 billion will be provided during the next four years and that £18 billion will be available for capital investment.

85. There is a strong capital investment programme in the ISNI, which will examine a range of public sector infrastructure projects in hospitals, schools, roads and investment. It will examine projects such as the Maze/Long Kesh development and other major infrastructure projects that will bring additional wealth and economy to Northern Ireland, and will, I hope, raise the game, so that we not only create

important retail jobs but will add significant infrastructure jobs and create employment that will enable the economy to meet the challenges of the twenty-first century.

86. **Mr McLaughlin:** However, the Labour Secretary of State also says that the economy is unsustainable, even with all of that. There is also the productivity gap, which the Minister has not disputed. The simple conclusion is that the policies are not working. We must await the launch of the regional economic strategy which the Minister assures us will be underpinned by the necessary forensic evidence. In fairness, we must wait for that before we pass judgement. It is clear, however, that a political argument as well as an economic one must be addressed if there is to be sustainable devolved Government.

87. It seems that the necessary commitment of additional resources is not present. I will put that in the context of the single issue of water charges, which are deeply unpopular and on which there is cross-party unanimity. The issue is not about not paying a fair price for a public service. People are not saying that if there were openness and transparency, they would not support water charges. They are prepared to pay for public services. However, despite repeated calls from the subgroup and the Programme for Government Committee, the Government and NIO Ministers have given us stock answers and almost theological positions. They refuse to engage in discussion and provide the wherewithal.

88. If there is to be a devolved Administration, it is clear that, from the outset, the economic resources do not exist to deal with the legacy costs of 30 years of under-investment. Unless that message is put across to direct rule Ministers, and through them to their ministerial colleagues in the Treasury, the Executive will be condemned to failure.

89. **Mr Hanson:** There is an obvious disagreement between the member and the Government on water charges. The Government believe that water charges are necessary in order to raise the game and to provide the investment needed to improve sewerage, water quality, and so on. That is what the Government believe

they must do. There has been a big gap in the capital investment required to modernise the Water Service to standards that one expects in the twenty-first century.

90. We are putting a tremendous capital investment programme in place to improve water services and to build new sewage facilities: they need to be paid for. Historically, we have had an open and honest disagreement on that, but I do not think that an appropriate contribution has been made to paying for such facilities.

91. I know that you share with me the wish that the Assembly will be in place by the end of March. When it is up and running again it can review its policies on those matters. We have passed Orders in the House of Commons, but, as I say, there is a disagreement between us on the issue.

92. The figures are £600 million in a capital investment programme over a three-year period, with £1.3 billion invested next year as we continue at this level of investment. Those are real, focused investments in the Water Service. They must be paid for, but they cannot be paid for from the resources that we have; we have had to look at ways of generating resources.

93. **Mr Dawson:** Before moving to corporation tax, I want to leave you in no doubt that more than one party at this table disagrees with the Government's economic policy.

94. **Mr Hanson:** I appreciate that, George.

95. **Mr Dawson:** It is an agreed position. No one, apart from the Government, has provided us with evidence that supports the Government's position. In fact, one eminent industrialist, Sir George Quigley, was open in saying that under no circumstances should an Executive be formed given the economic terms that have been outlined. That is the common view of the business community.

96. **Mr McNarry:** What constituency is he standing in?

97. **Mr Hamilton:** I wish to clarify a point. You said that the parties disagree with economic policy, and then you went on to talk about the

economic package. I would like to think that there is a good deal more consensus on the economic policies that we are trying to develop in conjunction with the parties and the business stakeholders. I am not sure that the economic policy and the economic package are synonymous.

98. **Mr Dawson:** One certainly feeds into the other. If we do not have the economic package in place, we will not be able to deliver on economic policy for the people of Northern Ireland. I am sorry, Wilfie, that you take that view.

99. Corporation tax has been much discussed. The view of many who presented evidence to us — and members have discussed the issue around the table as well — is that the purpose of the variation in corporation tax is to attract high value-added jobs to Northern Ireland and to deliver on R&D in Northern Ireland. It is not, as the response from the Government tried to suggest, a way of reducing corporation tax. I want to put that on record.

100. The previous Minister with responsibility for the economy indicated that a reduction in corporation tax was possible and desirable. That was in response to a question from my colleague David Simpson in the House of Commons.

101. The Prime Minister, when he met business leaders in Armagh, said that he was prepared to look seriously at the request for a reduced corporation tax rate. Since then, Treasury officials have simply rehearsed the difficulties without presenting any solutions.

102. Will serious consideration be given to the request to reduce corporation tax? If you believe that serious consideration has already been given, is there room for further discussion on corporation tax reduction, either in the terms that we have outlined or in other terms?

103. **Mr Hanson:** As you know, George, I was at the meeting in Armagh with the Prime Minister and the Taoiseach when business leaders raised the issue; and I was present at 11 Downing Street with the Chancellor when it was raised as part of the discussions on the economic package. The Chancellor is still considering it; he has not given it a definite no. However, it is a

non-devolved matter, even as regards my responsibilities in the area. I am afraid that I will probably disappoint you, as I will have to rehearse some of the difficulties again because they are significant.

104. The first difficulty is that, in a UK context —

105. **Mr Dawson:** There is no point in rehearsing them again; they are all on record. With respect, we are wasting time.

106. **Mr Hanson:** In that case, George, I cannot give you a definitive answer. I can say only that the Chancellor and the Prime Minister are aware of the concerns and the issues, and that the difficulties are severe.

107. **Mr Dawson:** The subgroup included corporation tax in the report because it wants to hear what consideration has been given to those associated difficulties and what are the solutions. The subgroup believes that there are solutions and is willing to engage with the Treasury in discussing them. However, the Treasury has not yet demonstrated a similar willingness. Is the Minister prepared to say that he will engage with the subgroup to look for solutions to those difficulties?

108. **Mr Hanson:** As long as I have the responsibility to consider such issues, I am happy to engage with the subgroup and the Assembly and to discuss them with the Treasury. However, there are severe problems with having one level of corporation tax in one part of the United Kingdom and another level of corporation tax in others. Certain areas, including my constituency in Wales, that have a lower level of productivity and face greater economic challenges than Northern Ireland would not receive the same reduction in the level of corporation tax — that might well result in jobs going from Wales to Ireland or another part of the United Kingdom.

109. There is a further difficulty on which I am happy to engage with the subgroup. Under current EU state-aid rules, a reduction in Northern Ireland's corporation tax rate would be extremely difficult. The Chancellor could make a case for such a reduction, and it could be discussed with

EU officials. However, at the end of the day, EU state-aid rules are there for a purpose.

110. Although I have rehearsed the difficulties, I am happy to consider solutions because if, three months down the line, there is successful restoration of devolution, the Assembly would not be bound, as I am in part, to have collective responsibility for the United Kingdom. The Assembly can say what it wants and argue for what it wants. As a Northern Ireland Minister, as I will remain under the new arrangements, I will be a point of contact to discuss the issues that I will then raise on behalf of the Assembly in Cabinet Committees and with the Chancellor. I am happy to do that because the aspirations of the Assembly are legitimate and deserve positive consideration.

111. However, I return to the severe difficulties in relation to other parts of the United Kingdom, state-aid rules and the simple fact, of which Mr Dawson is aware, that 96% of companies and businesses in Northern Ireland do not currently pay the 30% corporation tax rate.

112. **Mr Dawson:** It is not a question of how a reduction would affect existing companies: it is about attracting new companies, as the Republic of Ireland has successfully done, and I could list the large corporations that have located there.

113. Is the Minister saying that if Northern Ireland changes only in the ways that he has specified — without any variation in the rate of corporation tax — it will attract significant numbers of large companies with foreign direct investment to Northern Ireland?

114. **Mr Hanson:** I am saying that the same factors that will be considered by those devising a new regional economic strategy should be taken into account. Investment in skills, higher productivity, less reliance on a large public sector and the necessary investment in infrastructure throughout Northern Ireland — and members know the key areas as well as I do — can make Northern Ireland a productive and important place for foreign investors. There is already more foreign investment in Northern Ireland than in other parts of the United Kingdom.

115. I fully accept the difficulties caused by having different levels of corporation tax in the North and South and that the lower rate in the Republic of Ireland may be a factor that draws companies to Dundalk rather than to Newry. However, in a UK-wide context the Government have severe difficulties with any variations in the rate — although the Chancellor has certainly heard the voice of the Assembly.

116. **Mr Dawson:** If the Minister believes that what he is doing will make the difference, I want to see a commitment from the Government, in the regional economic strategy, that the levels of foreign direct investment in Northern Ireland will be equivalent to those currently being achieved in the Republic of Ireland. The subgroup will wait to see whether that commitment is included.

117. **The Chairman (Mr T O'Reilly):** Time will tell.

118. **Mr Dawson:** Before moving on, much has been said about infrastructure. The subgroup is pleased by the welcome investment in that. Any new Executive will be caught in the linkage between borrowing and local taxation, as was the previous Executive.

119. In our view, an Executive should be able to repay on borrowing from any source, not only local taxation. Are the Government open to discussion on breaking the link between borrowing and local taxation? I am thinking particularly about the reinvestment and reform initiative (RRI).

11.45 am

120. **Mr Hanson:** I would be happy to discuss that matter with the incoming Executive.

121. **Mr Dawson:** There is little likelihood of an Executive's being successful unless packages are in place before it is formed.

122. **Mr Hanson:** I disagree. I believe that the Executive should be successful, irrespective of the introduction of any financial packages. In my view, the financial package is strong. Currently, the prospective Northern Ireland Executive have a much clearer indication of the financial resources that will be available to

them than either the Scottish Executive or the Welsh Assembly.

123. We have promised to invest £35 billion over four years, together with a capital investment of £18 million. Other packages, including end-year flexibility and the commitment to ensure that asset sales and Gershon savings, if made, are kept in the Northern Ireland economy, are important factors around which a programme can be built.

124. Ultimately, all programmes are about prioritisation. We are giving a clear indication of what we think is available from central Government in that package. Within that, the Assembly will have to prioritise, and there will be times when it will have to make difficult choices, as we do now in Government.

125. **Mr Dawson:** I would not want you to be chided by the Chairperson, Minister, but on my earlier specific point, are the Government open to discussions on breaking the link between borrowing and local taxation?

126. **Mr Hanson:** I have said that I am happy to discuss that matter in general terms. If it is a matter for discussion in Mr Dawson's terms, before the formation of the Executive, I would be happy to discuss it with the appropriate Members of the Assembly. We are open to suggestions.

127. **Mr McNarry:** Would the Minister be open to standing for election on the basis of what he has just said? Would he seek a mandate in a Northern Ireland seat?

128. **Mr Hanson:** I am conscious that I am here as a Member of Parliament from the House of Commons, who was voted for by the people of north Wales. That is where my mandate lies as a Member of the UK Parliament. People who live in Northern Ireland are best placed to run its services, but the Assembly is not sitting, and that is why I am doing it. However, one of my other tasks is to make sure that the Assembly gets back up and running so that people who wish to seek that mandate can do so.

129. **Mr McNarry:** That is good, but it does not stop you from standing in the election next month.

130. **Mr Hanson:** The Government and my constituents in north Wales have plenty to keep me busy.

131. **The Chairperson (Mr T O'Reilly):** I would think so.

132. **Mr Hanson:** Thanks for backing me up, Thomas.

133. **Ms Gildernew:** The Minister mentioned skills. I have concerns about technological support for underdeveloped areas in new energy models, such as biofuels and anaerobic digestion. Such innovation would help to bolster the rural economy, which needs support.

134. Bearing in mind the shortage of university places, do the Government intend to provide more opportunities at third level and in the further education sector? Perhaps they could examine the model of the science and technology colleges in the Twenty-six Counties.

135. The LEADER programme has secured a great deal of investment and support for areas of need, and has assisted innovative companies. Invest Northern Ireland has been disappointing from that point of view; it has been unwilling or unable to examine underdeveloped areas and take risks.

136. My third point concerns public investment. The Minister mentioned water charges when he answered Mitchel McLaughlin's question. Some 120 jobs at the lower end of the pay scale are at risk at the Royal Belfast Hospital for Sick Children. A new PFI strategy is being discussed that will bring those workers — domestics, porters and other ancillary staff — under the control of the private company that borrows the money to build the new hospital.

137. That could lead to standards slipping and would not fit in with progression to a sustainable economy: it would put unrealistic demands on people who already work in the Health Service. If we are going to build a better economy, we must have the resources to do so. Mitchel McLaughlin is right; if the Executive do not have the proper resources, they are doomed to failure from the start, and as elected representatives, such initiatives are sending worrying signals to us.

138. **Mr Hanson:** The Government are keen to work with the sector to increase the number of university places available. One recommendation in the report produced by the Subgroup on the Economic Challenges Facing Northern Ireland was that the number of PhDs in five key technology areas should be increased. We are aware of a joint paper by the two universities, and we are currently discussing with them, as part of the comprehensive spending review, how we can increase the number of proposed PhDs and ensure that we fund that increase in due course.

139. We need also to consider how we can work with other sectors. There is a role for the private sector and voluntary agencies in helping to fund some of the placements that could help to expand university education.

140. My colleague Maria Eagle has acknowledged that there is a need to look very seriously at university places and increasing the number of student places. Recently, we issued a consultation paper on that subject, which highlighted that increasing the maximum number of students would have a financial cost to Government: about £6.7 million for each additional 1,000 places. However, it is worth considering, and we are establishing whether that increase could be resourced during the next round of the comprehensive spending review. No final decisions have been taken, but there is an opportunity and willingness to consider how we can expand the education base at university level, particularly in the key science and technology areas, to ensure a productive Northern Ireland economy.

141. Ms Gildernew also mentioned science, skills and alternative uses of fuels, biomass, etc. The Government have produced a science and skills fund, which covers a range of areas, and around £30 million has been allocated to the fund. Not all of that resource has been taken up, but we are certainly looking at how we can develop a range of alternative energy sources and new initiatives relating to biomass and wind energy, etc. It is important that the fund is developed and extended. The Government are trying to look at how that fund can be used

productively — although I am conscious of making commitments that might well outlive my responsibilities in these areas. We are also keen to look at how we can maximise the benefits of university education across the island of Ireland. It is important to have much more North/South co-operation on education opportunities at university level, and that co-operation would help to develop the skills base of the island as a whole.

142. **Ms Gildernew:** What about Invest NI as regards risk-taking — compared to the LEADER funding scheme?

143. **Mr Hamilton:** Does that question refer to risk-taking as regards investing in rural areas?

144. **Ms Gildernew:** Yes, and being proactive in seeking to make investments. I have raised the matter with Invest NI and have been disappointed with its answers.

145. **Mr Hamilton:** Risk-taking is a difficult matter. The subgroup and politicians have raised the issue in the past — that the need for accountability does not always encourage risk taking. However, we need to be more flexible. For example, the Invest NI board and the permanent secretaries from several Departments will be looking at the extent to which Invest NI needs to rise to the challenge — and it does need to rise to the challenge. We need more investments and more higher-value-added investments.

146. However, it is not only a matter of promoting wealth creation; Government are also mindful of the need to promote the spread of wealth. We are trying to encourage a great number of investments in New TSN areas, something that is in Invest NI's corporate plan. If Invest NI could target that investment better, it should do so.

147. Invest NI has made such investments in some areas and been criticised because, on the face of it, they seem to be low-value-added. The practice of making certain types of investment in certain areas to encourage graduate retention and movement from economic inactivity into the labour market is important. Invest NI must do a mix of things: it needs to focus on high-value-added investments in certain places and

other types of investment elsewhere. However, the balance must be towards higher-value-added investments.

148. **Ms Gildernew:** There must be a geographical spread in employment. I will talk to the officials at a later date about constituency issues.

149. **Mr Hamilton:** I would like to talk to you about that investment.

150. **Mr McNarry:** There she goes now, for goodness sake.

151. **Ms Gildernew:** I am not the one who mentioned Comber. *[Laughter.]* We will talk about that again.

152. **Mrs Kerr:** On the matter of additional places, it is not just at university level that business must exploit the emerging opportunities in new technologies. Evidence shows that places are needed at technician level — that is levels two and three. The challenge is to up-skill the workforce to ensure that they have the flexibility to take those opportunities when they arise, and to allow pull-through for people at lower levels, including the economically inactive. Next year's refocusing of the professional and technical programme will be part of that challenge.

153. **The Chairperson (Mr T O'Reilly):** Mr Dawson prosecuted the corporation tax question well. However, to add to your barrel of woes, given that you have committed to engage on the question of corporation tax, will you and the Secretary of State undertake to put pressure on the Chancellor to establish a working group to consider that specific issue? We requested that, through the Programme for Government Committee, in a letter of 4 January 2007.

154. **Mr Hanson:** The Secretary of State and I are in discussion with the Chancellor on a regular basis, and he is aware of the letter. His response will be forthcoming. Your letter, which was copied both to the Chancellor and to the Taoiseach, related to a number of matters, of which corporation tax was one. I am happy to at least raise those matters with the Chancellor. To put pressure on the — potential — next Prime Minister is difficult because, ultimately, he will

be responsible for the dispensation of ministerial jobs. However, between the two of us, we will come to some conclusion on that matter.

155. **Mr Dawson:** David offered you a seat in Northern Ireland.

156. **The Chairperson (Mr T O'Reilly):** That is plan B. *[Laughter.]*

157. **Mr Hanson:** I am not sure which party I would stand for.

158. **The Chairperson (Mr T O'Reilly):** Well evaded.

159. **Mr McNarry:** Great changes in job provision have occurred in Northern Ireland. There are reduced opportunities for skills in heavy engineering and shipbuilding. The textile industry is virtually non-existent — to the extent that even 30 jobs in a small, niche textile company in Killinchy are under threat. It is serious when a niche factory struggles to compete on productivity. In agriculture, many farmers are having to take on an extra job to ensure that their homes and farms are kept safe, and it is worrying that few of their offspring express any interest in working on the family farms. What careers advice would the Minister offer to 14-year-olds today? How should they focus their education, whether towards academic attainment or skills training, with a view to being best prepared to enter real employment?

160. This subgroup has heard from young people, captains of industry and employers. It was clear from their evidence that we are producing a sizeable number of young people — setting aside the many who have no qualifications — who do not have relevant qualifications. I focused on 14-year-olds because their parents are beginning to ask what their children are doing at school and what their boy or girl should be doing, academically or in training, to get a job.

12.00 noon

161. It would be helpful to have some advanced pinpointing of the fields in which jobs will be found in 2010 and 2015. I know that the Minister takes a personal and genuine interest in that issue, although he will not live here or stand for election here. It would be helpful if we

could tell 14-year-olds where to find the jobs of the future. People are using resources either to train in a skill for which there is no employment or to achieve an academic position for which there is no real work.

162. **Mr Hanson:** I have three teenagers, one of whom is 14, and a three-year-old. If they asked me what they should do in the future, I would advise them to look at what I term the new industries; to look at intellectual capacity in innovation, invention and development; to look at information technology (IT) skills because that is an employment field for the future; but not to look at — with due respect to people such as my father who engaged in heavy manual work — the older industries such as shipbuilding, which are not sustainable for the future.

163. We need to look at innovation. We need to be able to compete and be successful by inventing and developing technology. We need intellectual capital to support our future economy.

164. Some of the most successful companies that I have visited in Northern Ireland are considering innovation and creating products for the future. I visited some film companies in Belfast that are developing intellectual capacity to create the products of the future. They are bringing people into Northern Ireland to work in the film industry.

165. Mr McNarry asked me how I would answer a 14-year-old who questioned me about future employment. I would want to know what the child was capable of and what their natural skills and talents were. As a nation, we must compete, not, sadly, in production — China's millions of people can produce goods and ship them across the world more cheaply than we can, despite the resultant ecological damage — but in intellectual skills, design and marketing, and advanced IT. We must consider how to push the boat out even further by inventing and inspiring for the future. We did that successfully in the past.

166. **Mr McNarry:** I am glad to hear the Minister's views and I agree with them; it is good advice. However, can we attract the jobs to which we are directing children? Can we

compete with other economies? After all, 14-year-olds all over the world will be chasing the same jobs.

167. **Mr Hanson:** We have to consider how Northern Ireland can position itself. It can work with its successful neighbour, the Republic of Ireland, to build on that country's success; it can co-operate with the United Kingdom on an east-west basis; and it can work as part of the wider Europe. I welcome the wider Europe. People from Poland and Lithuania are working in Northern Ireland, but, ultimately, that is a short-term transfer of labour to meet some of the skills deficits here. However, the wider Europe will include a great many opportunities to help to develop entrepreneurial skills, advice and infrastructure so that companies in eastern Europe can build their skills and manufacturing capacity to the levels that we expect.

168. Our focus should be on the development of skills that can be used in a worldwide market, and we should use those skills to build markets in eastern Europe. In order to make a difference, we should also work with our strong neighbour, the Republic of Ireland, and our strong partners in the rest of the United Kingdom.

169. **Mr McNarry:** Is the Minister saying that, if Northern Ireland is to retain its economic base, 14-year-olds should head in that direction? Should a devolved Government co-operate and collaborate with central Government and say that they need incentives and investment to build factories, for example, to train young people and to create jobs?

170. **Mr Hanson:** Yes, but Northern Ireland will compete on the basis of skills. I do not necessarily anticipate that factories will be built here. People could be based in Northern Ireland and service manufacturing plants or sell their intellectual property, throughout the world. Those are the advantages of living in modern times. I am only forty-nine and three quarters, and when I was at school, I was not even taught computer skills.

171. **Mr McNarry:** What age is the Minister?

172. **Mr Hanson:** I am forty-nine and three quarters. *[Laughter.]*

173. When I was at school, we did not consider today's industries. Not only must we have the vision to examine the needs of 14-year-old pupils, but we must think about what five-year-old children will require in 20 years' time.

174. **Mr Hamilton:** The Minister has said that if, on the one hand, we can develop, from top to bottom, a holistic, focused and concentrated policy approach to innovation and science that includes private-sector responsibilities, we could do the same for schools and education. We could then build the supporting infrastructure.

175. Recently, Citigroup executives from the United States and England were in Belfast for the opening of the company's technology centre. They could not believe that, with our telecommunications facilities, work could be delivered from Northern Ireland to the US virtually in real time. In its report, the subgroup highlighted the importance of increasing the speed from two megabytes to eight megabytes; in the context of CSR, the Department of Enterprise, Trade and Investment wonders whether the speed could rise to 20 megabytes. If people have the right skills — and Northern Ireland has a modern telecommunications infrastructure that is the envy of Europe — perhaps the north-west could have a telecoms support network that could be connected to a telecoms hub. There are real opportunities. The question is will new fiscal policies and more money be made available? Regardless of that, we must use those resources we have well.

176. **Mr Hanson:** Intellectual manufacturing will generate wealth that will, in my view, sustain people in basic industries — the construction industry is one example — and support services.

177. We must also focus on the tourism market. For reasons that are known to all of us and that we do not need to rehearse, Northern Ireland has not been the great tourist destination that it could be. However, some places have the potential to be appealing tourist attractions, and the infrastructure is being put in place. A couple of days ago, my colleague Maria Eagle was in Derry to celebrate the completion of phase 1 of the walled city of Derry signature project. The

Titanic Quarter is being developed as a tourist destination, which will create jobs in the service sector — in hotels and restaurants — and will contribute to a growth in the use of public transport.

178. **Mr McNarry:** There are great aspirations behind the Minister's positive comments, and I thank him for that. However, he needs to convince me that he is confident about sustainability.

179. **Mr Burns:** I support Mr Dawson's point that corporation tax is an important, but difficult, issue. However, other issues are even more difficult, and we will get over corporation tax.

180. When the Assembly is up and running, there will be joint ministerial trade missions with representatives from the Republic of Ireland. My fear is that if we cannot offer the same tax rates as the Republic of Ireland, people in Northern Ireland who live within a 25-mile radius of the border will want to work in the Republic.

181. Might east of the Bann become a great place for public-sector workers, such as those who work in Government offices and in hospitals, and so forth? Given that nobody who works in that capacity produces anything, could the public sector be caught up in the application of corporation tax? It is critical that that tax does not affect that sector.

182. What effect will the proposals have on reducing dependency on the public sector and lessening the need for Treasury subventions?

183. **Mr Hanson:** I am not in favour of reducing the public sector per se; I am in favour of developing the private sector so that the public sector becomes a smaller part of Northern Ireland's economy.

184. I did not join the Labour Party or go into politics to cut public spending or to reduce the amount of money that is spent on health and education. My mission is to ensure that we invest public-service resources appropriately in health, education and many other public services so that they become world-class provisions. We are trying to reform public services and to find different ways to deliver them.

185. However, the issue is not about reducing the resources that are spent. We need to ensure that the private sector grows so that the money that goes into the public sector from the total economy is reduced. It is unfortunate that there is still too much dependence on the public sector in Northern Ireland for job creation. The private sector needs to grow to ensure that people have the sufficient skills to increase their wealth and prosperity. That will mean that people west and east of the Bann will have a mixture of employment markets, including a good public-sector market in Government that provides jobs in hospitals, schools, libraries, transport and other good public-sector providers. In such circumstances, people will also have an opportunity to develop their economic capacity through any potential new industries while still being involved, wherever possible, in manufacturing in Northern Ireland. Therefore, a balance must be struck. The Secretary of State has said that the current balance is wrong. However, the strategy does not mean a reduction in the public sector overall but a growth in the private sector.

186. I know that we have covered corporation tax in some detail, but I accept that it is a difficulty. As I said earlier, if two people, one of whom lives in Dundalk and the other in Newry, want to set up a business in the greater Newry/Dundalk area, the different corporation-tax band might be one of the factors that drives them to Dundalk rather than to Newry. I accept that.

187. However, both members and I know that, particularly as the political process continues, people will work in Dundalk and live in Newry, and vice versa. That cross-border activity exists, and it is much easier to live and work in those circumstances than it was 10 years ago. When I went to Newry before Christmas, I saw a great deal of co-operation between people on both sides of the border on the infrastructure and on marketing the whole region. That co-operation is crucial, and not just where corporation tax is concerned. Although that is an important issue, the skills and the potential that that region can offer will attract jobs and industry.

188. **Mr Hamilton:** We could not let the meeting pass without saying that we fought the Irish Government tooth and nail for the 700 Citigroup jobs. Those jobs came to Northern Ireland because of the skills, education and the availability of the labour force here. Those jobs could have gone to Dublin, but they did not: they came to Belfast. That wee success story should go on the record.

189. **Mr Dawson:** Obviously, we all support the developments in, and promotion of, tourism. However, one of our previous reports noted our concern that, to date, those tourism projects have not been supported fully. That is one reason why we have asked for additional money.

190. In our second report, we had a strategic look at the roads' infrastructure. We did that partially to support tourism but also to develop the economy. We identified several roads over and above those that are in the existing development plans. The response to that work was the identification of the costs of those roads. However, there was no indication as to whether the Government thought that our suggestions on the upgrading of those strategic roads in the region had any merit. As David McNarry has been a bit parochial, the Minister will forgive me for mentioning that the A8 to Larne is one of those key strategic roads.

191. **Mr McLaughlin:** I want to know about the Derry to Dublin road. *[Laughter.]*

12.15 pm

192. **Mr Dawson:** All those that we have identified are key roads for the development of the economy and the tourism industry.

193. **Mr McNarry:** There is an election coming up.

194. **Mr Dawson:** Do the Government have a view as to the merits of our proposals?

195. **Mr Hanson:** I looked at the list of roads that are mentioned as requiring improvement in recommendation 8 in the subgroup's second report. I recognise that all politics are local and that, at the end of the day, politicians are judged on the roads as much as on anything else. We have a number of current road-transport plans,

some of which mirror the subgroup's suggestions. Mr Dawson will have seen from the response to the recommendation that issues such as the dualling of the A6 from Derry to Dungiven, the A5 from Strabane to Lifford, and the improvement link between the A8 and the M2 to reduce delays at the Sandyknowes roundabout are already being addressed. In the budget for 2007-08, which I have recently produced, additional resources are being allocated to road development and road transport, and we will certainly examine the question of priority for the links that are mentioned in the subgroup's report.

196. I must say that it is important that the tourism revenue —

197. **Mr McNarry:** We are not getting an answer.

198. **Mr Hanson:** I cannot give a guarantee. We are almost in purdah. If the subgroup can secure a guarantee, we can go from there.

199. Tourism revenue has grown by 9% over the past year and currently contributes more than £500 million to the Northern Ireland economy. As I have said, the walled city of Derry signature project, the Titanic Quarter and the Giant's Causeway centre are just some of the key tourism infrastructure projects that we are developing. In Belfast, projects such as the development of Victoria Square, the north-west quarter and the Cathedral Quarter have tourism potential. They will bring in people from other parts of the United Kingdom, from the Republic and from cruise ships who will spend money in the city.

200. **Mr Dawson:** My key point was that, both in tourism and roads planning, we have identified sums of money over and above existing commitments, and over and above any Government plans to invest in those areas, thus generating a need for a greater package than is currently on offer.

201. **Mr Hanson:** Hopefully, Mr Dawson will have the opportunity to develop those projects very shortly.

202. **Mr Dawson:** With the additional money?

203. **The Chairperson (Mr T O'Reilly):** I appreciate that we are close to the Minister's time limit.

204. It has been announced that a feasibility study is to be conducted on a rapid transit system to link Belfast city centre with the Titanic Quarter. What is Government's preliminary view on funding arrangements for such a system?

205. **Mr Hanson:** The Government's view has been that many of the developments in the Titanic Quarter can ultimately be funded from the benefits of the private sector's setting up the area. The Government, as a partner, can facilitate that, and I am very hopeful that we will be able to attract people from the private sector who are able to put in place the financial support mechanisms to help with infrastructure costs for those areas.

206. The signature project for the Titanic Quarter very much depends on the current application for National Lottery funding. That would bring in significant resources that the Government may have to match. It would be a financial cost to us, but, in broad terms, I am hopeful that funding for the infrastructure will be secured from the private sector. It will make significant gains in due course from the business and residential arms of that development, and it is important that it contribute to the cost of the infrastructure.

207. **Mr Dawson:** It would a pity, Chairman, if the last word from the Minister was that the future development of Northern Ireland's economy is dependent on a lottery.

208. **Mr Hanson:** Well, the signature project is dependent on National Lottery funding.

209. **The Chairperson (Mr T O'Reilly):** Mitchel has indicated that he wishes to ask one final question.

210. **Mr Hanson:** If it is a friendly one, I will take it.

211. **Mr McNarry:** He wants to know the numbers for this week's National Lottery draw.

212. **Mr McLaughlin:** I would contribute some of it to the economic package.

213. We have been given a lot of statistics, and the Minister was good enough to rehearse some of them. However, the underlying reality is that 500,000 people are economically inactive. I endorse strongly the Minister's comments about defending the public sector while growing the private sector and rebalancing the economy. What will the draft regional economic strategy say about targets to bring people out of the 500,000 economically inactive and into economic activity?

214. **Mr Hanson:** It is a key area, which is linked not only to the draft regional economic strategy, but to 'Lifetime Opportunities', our anti-poverty and social inclusion strategy, which the Office of the First Minister and the Deputy First Minister (OFMDFM) published in November 2006.

215. I am anxious to ensure that the economically inactive return to the workplace. Various Departments are looking at ways in which to introduce positive measures to get people off benefits and back into work. We are also looking at ways in which to ensure that people obtain the necessary skills to raise their income level. Like the subgroup, I am not satisfied that Northern Ireland still has very high levels of poverty, which are often centred in particular constituencies, or in particular wards in those constituencies.

216. The Department for Social Development (DSD), for which I have responsibility, is currently undertaking a major programme of neighbourhood renewal. The Department is trying to restore the social infrastructure through investing in areas with the highest unemployment rates and levels of deprivation. It is also looking to launch projects that will help to raise the expectations and quality of life of those people who are excluded from society.

217. As well as the issues that we have covered today, such as the economic infrastructure and economic possibilities, we must consider running benefit take-up campaigns. We must think of ways in which to get people off benefits and into work. First, however, we must look at ways in which we can provide people with the basic skills training for them to get jobs. Those

plans form a key part of the Government's overall strategy to tackle poverty and social exclusion. We must ensure that all parts of Northern Ireland benefit from the wealth and prosperity that we hope to create, because it would be of no use if that wealth were to impact only on certain parts of Northern Ireland.

218. That wealth must reach places such as Mr McLaughlin's constituency and some of the Belfast wards. In particular, it must impact on those rural areas where large pockets of deprivation and social exclusion endure. To achieve that will prove a difficult test. We have had to prioritise, and we shall focus on 30-odd wards and neighbourhoods. However, I am conscious of the fact that, in order to tackle those social exclusion issues, we must undertake cross-departmental work.

219. **Mr McLaughlin:** The draft regional economic strategy will be silent on the issue of social exclusion, however.

220. **Mr Hanson:** No, it will not be silent on that issue. I see the strategy as part of an overall Government package. Yes, we are committed to creating the new jobs of tomorrow and to developing the economy of Northern Ireland, but work to achieve that will go hand in hand with our commitment to tackling social exclusion and to getting those people who currently do not benefit from the wealth and prosperity that there is here — for there is still great wealth and prosperity in parts of Northern Ireland — to contribute to, and benefit from, the community at large.

221. That will require cross-departmental work. The draft regional economic strategy, DSD's neighbourhood renewal strategy and OFMDFM's anti-poverty and social inclusion strategy are all drivers that will help to ensure that we not only create wealth but share it fairly in order that people have an opportunity to participate in society.

222. **Mr Hamilton:** The offices that run the pilot schemes to tackle economic inactivity have increased numbers back into the market fourfold and fivefold, so many of those pilots will be extended next year into a more general application.

223. The key point to note about the draft regional economic strategy is that it will soon be published for consultation. We have had to refine all the work on the question of targets. Not so long ago, the Economic Development Forum (EDF) was unclear about targets, but now it is more positive. The purpose of the consultation will be to agree collectively a document that we can all get behind in order to deliver what we think is required.

224. **The Chairperson (Mr T O'Reilly):** On behalf of the subgroup, Minister, I thank you, Leo, Wilfie and Nuala for coming along this morning to answer our questions.

225. If you or any of your officials wish to contribute any further information, the subgroup would appreciate receiving it before close of business next Monday.

226. **Mr Hanson:** I appreciate that the subgroup's timescale is limited. Thank you for your hospitality today.

227. **The Chairperson (Mr T O'Reilly):** Our pleasure.

Adjourned at 12.23 pm.

Appendix 5

Minutes of Proceedings

Thursday, 18 January 2007 in Room 144, Parliament Buildings.

In the Chair: Thomas O'Reilly

Present: Thomas Burns
George Dawson
Michelle Gildernew MP
Mitchel McLaughlin
David McNarry

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Clerk)
Colin Jones (Assistant Clerk)
Trevor Allen (Clerical Supervisor)
Graham Gudgin (Economic Adviser)
Victor Hewitt (Economic Research Institute of NI)

The meeting commenced at 10.39am in closed session.

1. **Apologies**

Dr McDonnell MP – (Mr Burns deputised for Dr McDonnell).

Mr Robinson MP.

2. **Draft Minutes of the Meeting of 21 December 2006**

These were agreed for publication on the Assembly website.

3. **Matters Arising**

Members noted that Maria Eagle, MP was unable to meet with the sub-group in January, but that David Hanson, MP, Minister of Finance and Personnel would attend today's meeting to discuss the Government's response to the three reports on the economic challenges facing Northern Ireland, which were published by the Preparation for Government Committee.

It was noted that the Minister would be supported by senior officials from various Departments and would field questions on all aspects of the recommendations in the reports. Mr McNarry asked for his disappointment regarding Maria Eagle's unavailability and the absence of officials from the Department of Education at today's meeting, to be recorded in the minutes.

It was agreed that the meeting with the Minister should be in open session and recorded by Hansard.

The sub-group agreed to report to the Programme for Government (PfG) Committee on its follow up to the Government's response to the three reports on the economic challenges facing Northern Ireland, including the outcome of today's meeting with the Minister. Members also agreed to hold a short meeting on Tuesday 23 January 2007 to consider the draft report on this matter.

Ms Gildernew joined the meeting at 10.46am.

Members noted that PfG had agreed, subject to some minor amendments, the sub-group's report on its enquiries into the proposed Irish Government package and the report on the Chancellor's economic package and counter proposals. In this regard, Members noted correspondence from PfG to the Irish Government and HM Treasury.

Members noted a response from the sub-group on Schools Admission Policy in relation to a call for an additional £20m for education.

4. Briefing from Economic Advisers

Members were briefed by the economic advisers on the Government's response to the three reports on the economic challenges facing NI.

5. Evidence Session with David Hanson, MP, Minister of Finance and Personnel and Supporting Departmental Officials

The meeting continued in open session at 11.00am. The evidence session was recorded by Hansard.

Members took evidence from the following:

- David Hanson, MP, Minister of Finance and Personnel;
- Wilfie Hamilton, Department of Enterprise, Trade and Investment;
- Nuala Kerr, Department for Employment and Learning; and
- Leo O'Reilly, Department of Finance and Personnel.

The meeting was suspended at 12.25pm.

The meeting resumed in closed session at 12.40pm.

6. Sub-group's Draft Report to PfG on Follow Up to Government Responses

Members considered the first draft of the report and agreed some general areas for amendment. It was agreed that the wording of any further amendments proposed by Members would be sent to the Clerk by Noon on Monday 22 January 2007 and that a further draft of the report, together with any proposed amendments from Members, would be considered at the next meeting.

7. **Any Other Business**

Members noted a response on behalf of the sub-group to a recent Freedom of Information request received by PfG.

Members considered and agreed a press release for issue in relation to today's meeting.

8. **Date, Time and Place of Next Meeting**

The next meeting of the sub-group was arranged for Tuesday 23 January 2007 at 1.00pm in Room 135, Parliament Buildings.

The meeting adjourned at 1.00pm.

Tuesday, 23 January 2007 in Room 135, Parliament Buildings.

(Unapproved Draft)

In the Chair: Thomas O'Reilly

Present: George Dawson
Michelle Gildernew MP
Mitchel McLaughlin
David McNarry
Margaret Ritchie

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Clerk)
Colin Jones (Assistant Clerk)
Trevor Allen (Clerical Supervisor)
Graham Gudgin (Economic Adviser)
Victor Hewitt (Economic Research Institute of NI)

The meeting commenced at 1.09pm in closed session.

1. **Apologies**

Ms Gildernew MP – late arrival.

Dr McDonnell MP – (Ms Ritchie deputised for Dr McDonnell).

Mr Robinson MP.

2. **Draft Minutes of the Meeting of 18 January 2007**

These were agreed for publication on the Assembly website.

Following some discussion, it was agreed that the unapproved minutes of today's meeting should be attached to the sub-group's report to the Committee on the Programme for Government (PfG).

3. **Matters Arising**

Members noted additional information provided by DETI in relation to a cross-departmental working group, which would focus on STEM subjects. This would be included in the appendices to the sub-group's third report to PfG.

4. **Sub-group's Draft Report to PfG on Follow Up to Government Responses**

Members considered the draft report paragraph by paragraph.

Introduction

Paragraphs 1 – 7 were agreed.

Consideration of Issues

Paragraphs 8 – 10 were agreed.

Paragraph 11 was agreed, subject to the following amendment:

that, 'although the sub-group noted that these tended to be at the low value-added end of the scale,' should be inserted after, 'activities.'

Paragraphs 12 – 15 were agreed.

Paragraphs 16 – 20 were agreed.

Paragraphs 21 – 22 were agreed.

Paragraph 23 was agreed.

Paragraph 24 was agreed, subject to the following amendment:

that, 'evidence,' be replaced by, 'economic analysis.'

Paragraph 25 was agreed, subject to the following amendment:

that, 'The Secretary of State has stated that the NI economy is unsustainable which is a very serious allegation,' is inserted at the start of the paragraph.

Paragraph 26 was agreed.

Paragraphs 27 – 30 were agreed.

Paragraphs 31 – 34 were agreed.

It was agreed to insert further paragraphs in relation to the Minister's evidence regarding education and special needs.

Ms Gildernew joined the meeting at 1.55pm.

Paragraph 35 was agreed, subject to the following amendment:

that, 'Government needs to recognise the political consensus,' be replaced by 'Government failed to recognise and respond to the political consensus,' and that, 'a more proactive,' be replaced by, 'genuine.'

Paragraphs 36 – 37 were agreed.

It was agreed to insert a further paragraph to acknowledge the publication of the RoI's National Development Plan and to highlight the need for careful consideration to be given to the proposals pertaining to NI.

Conclusion and Recommendations

The recommendations to PfG in relation to the sub-group's report were agreed as amended.

Proposed Open Letter from PfG Committee to the Secretary of State

The draft letter was agreed as amended. It was also agreed that the recommendations contained in the three reports in question should be attached to the draft letter.

Executive Summary

Paragraphs 1 – 5 were agreed.

The Chairman proposed that, 'the draft report, as amended, be adopted as the sub-group's third report to PfG.'

There was consensus and the proposal was agreed.

It was noted that the agreed amendments would be made and the report issued to PfG on Wednesday 24 January. The final version would also be issued to sub-group members.

5. **Economic Advisers**

Members agreed to authorise for payment an invoice from the economic advisers for the fees outstanding in respect of their support to the sub-group. It was also agreed that a letter should issue to the advisers acknowledging their contribution to supporting the work of the sub-group.

Members agreed the contents of a letter to the Chairman of ERINI, recognising Victor Hewitt's contribution to supporting the work of the sub-group.

6. **Any Other Business**

Members noted a response from the Secretary of State to PfG in relation to Water Reform.

The meeting adjourned at 2.29pm.

Appendix 6

Follow up Information from the Evidence Session

Additional Information received from the Department of Finance and Personnel



Richard Pengelly
Central Expenditure Division
Room S10A, Rathgael House,
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Mr Alan Patterson
Committee on the Programme for Government
Economic Sub-Committee
Parliament Buildings
Stormont Estate
Belfast
BT4 3XX

xx January 2007

Dear Alan

Chancellor's Package

Further to the additional information which I provided on 11 December arising from the Hansard of the evidence session on 7 December, you have asked for some supplementary information.

In addition to the figures provided on 11 December, you have asked for the figures previously provided, to be based on an assumption of 1.0% per annum real terms growth over the four years as opposed to 0.5%. Also, you have asked for confirmation of whether the valuation of public expenditure assets would be a reserved matter under devolution.

The Chancellor's letter to the Secretary of State of 8 November (copied to party leaders in the Secretary of State's letter of 13 November), quoted a run of figures (from 2007-08) of £8.5 billion, £8.7 billion, £9.0 billion and £9.2 billion. Based on the assumption of a 1% per annum real terms growth, the run of figures would be £8.5 billion, £8.9 billion, £9.2 billion and £9.5 billion.

On the issue of whether the valuation of public expenditure assets would be a reserved matter under devolution, particularly in relation to the valuation of the Water Service GoCo, this would be a devolved matter and the Executive would be the primary body taking decisions on those services. However, the implications of the extent to which those decisions have public expenditure consequences, within the public expenditure framework as defined by the Treasury, would also have to be managed by the Executive.

I should be grateful if you would draw this to the attention of members, and I hope that they find this helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Pengelly', is positioned below the closing text.

Richard Pengelly

Additional Information received from Minister David Hanson MP



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Stoney Road
Belfast BT4 3SX
Telephone 028 9052 9140
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Mr Tommy O'Reilly MLA
Chair
Sub-Group on Economic Challenges
Northern Ireland Assembly

Our Ref: COR/25/2007

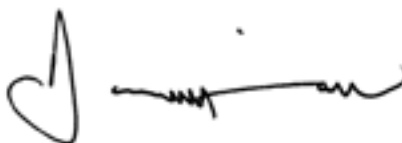
23 January 2007

I would like to thank you and your colleagues for the hospitality shown when I appeared before your Sub-Group on 18 January 2007.

For my part, I found the debate very helpful and constructive. It served to confirm my view that we all share the Economic Vision for Northern Ireland – an outward-looking, vibrant, innovative and highly skilled economy that can compete successfully in the global economy. The key question is how do we (under Direct Rule or devolution) deliver that vision. There is no 'silver bullet' answer. Rather we need to ensure that economic development resources are well targeted and that policies focus on improving the key drivers – skills, infrastructure, innovation and enterprise. The Chancellor's proposed financial package will deliver significant resources over a four year period that will provide an opportunity to ensure that these key drivers of economic growth are given priority in terms of funding.

During the course of our discussions, I promised to provide further information on the work currently underway within departments on improving education in the key areas of science and technology. Please see the attached note which details current work and the draft terms of reference for the proposed strategy.

In concluding I would like to wish you and your Sub-Group colleagues well in striving to improve the economic prospects for Northern Ireland. It is an aim shared with the Direct Rule ministerial team.

A handwritten signature in black ink, appearing to read 'D. Hanson', with a stylized flourish at the end.

DAVID HANSON MP
Minister of State for Northern Ireland

SCIENCE & TECHNOLOGY EDUCATION PROVISION

1. Current economic policy places emphasis on the economic drivers which include competitiveness, skills and innovation. The Economic Development Forum sub-group on skills recommended that DEL initiate a project to determine the skills needed for innovation to support the science and technology-based industries. The argument runs that Northern Ireland needs to progress in these areas in order to compete in the global market-place, particularly in the area of the knowledge economy. If this is so the place of STEM in the education system will be increasingly important. Northern Ireland will need more students taking up these subjects and more and better qualified teachers and lecturers to teach them.

2. DE and DEL are aware, from advice given by the Education and Training Inspectorate (ETI), from general discourse with employers, and the work of many of the Sector Skill Councils especially SEMTA which covers the Science, Engineering, Manufacturing industries that while the education system continues to do reasonably well in these areas, there are a number of problems which need to be addressed:
 - an emerging teacher supply problem in schools and the need for continual professional development (CPD) of teachers/lecturers based on industry standards;
 - school science perceived as a passport to the professions and not to the knowledge economy;
 - curricular issues such as the profile of STEM in the primary sector, the links available between schools, further education and industry and the place of STEM in careers guidance;
 - the comparative decline in mathematics performance in Key Stage 3;
 - the need to promote additional support in maths and science to students in further education who chose science and technology based courses; and

- the comparative lack of integration among the various components of STEM.
3. The two Departments would wish to engage with industry and HE and the professional bodies to consider the way forward. We can draw on policy in GB following the Roberts Report and the DfES Review. We can draw on ETI and support from CASS/the Learning and Skills Development Agency (LSDA) NI. The intention would be to identify some quick wins in respect of school/FE STEM and to draw together a wider 10-year strategy for the development of STEM. LSDA completed recently a study of the training needs of the Science Industry in Northern Ireland which would provide a good starting point.
 4. It is our view that the work should be led by two or three significant figures from industry/HE supported by a group drawn from the relevant Government Department (DE, DEL, DETI and DARD) and from the various players (industry, HE, the professional bodies, schools, FE colleges, the Association of Northern Ireland Colleges (ANIC), CCEA, ELBs, LSDA). Since a large number of interests are involved it is proposed to adopt a sub-group structure around the two/three leading figures (who could be supported by ETI), along the lines of the Bain Review.
 5. It is envisaged that the work would begin in January 2007 with an interim report in April/May 2007 and a final report in September 2007

Draft Terms of Reference as follows:

This work is designed to produce a strategy for the development of STEM through schools and further education, identifying progression routes to higher education and employment and, emphasising the links to the skills and innovation needs of the wider economy.

The work will involve:

- i. establishing the Government's vision of STEM and the coherence of current policy in respect of promoting STEM in schools FE and other provision;
- ii. defining the links between STEM in schools and FE and the Government's Skills and Innovation Strategies;
- iii. establishing the data, quantitative and qualitative, for the provision of and the outcomes for STEM in Northern Ireland and benchmarking against the UK and Ireland;
- iv. identifying the current issues and concerns in respect of STEM and FE;
- v. recommending the way forward for schools and FE in respect of:
 - pedagogy
 - curriculum
 - coherence across the various subject areas;
- vi. analysing and make recommendations in respect of teacher demand and supply in these areas;
- vii. promoting interest in, and understanding of, the importance of STEM to society and the economy and of the opportunities available.

The work will be will be overseen by a small steering group chaired by an industry expert and representative of Government (DE, DEL, DARD, DETI), and the demand side, including the universities. Each strand of the work outlined above will be taken forward by a project team which will report to and

be overseen by, the steering group. Support for the steering group will be provided, jointly by DEL and DE and will also include the Education and Training Inspectorate (ETI) and statistical services in the departments. DE and DEL will ensure that there are linkages with the Northern Ireland Science and Industry Panel.

It is proposed that the following groups are established to take forward the various strands of work.

Government led Working Group	-	ToR i-iv
ETI led Working Group	-	ToR v
Business led Working Group (to include Sector Skills Councils)	-	ToR vi-vii

Appendix 7

Direction issued by the Secretary of State



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Secretary of State for Northern Ireland

Mrs Eileen Bell, MLA
Speaker of the Assembly
Parliament Buildings
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BT4 3XX

23 November 2006

PROGRAMME FOR GOVERNMENT COMMITTEE

One of the elements of the St Andrews Agreement is a Programme for Government Committee to agree priorities for a restored Executive and to make preparations for restoration. It is intended that the Committee should meet regularly over the coming months, at least once a week.

I, therefore, hereby direct under paragraph 2(2) of Schedule 1 of the Northern Ireland (St Andrews Agreement) Act 2006 that the Business Committee shall establish a Programme for Government Committee to meet at 12:00 noon on Monday 27 November and subsequently at dates and times to be agreed by the Committee.

I also direct that:

- The Committee should be made up of 10 MLAs with the number of members from each party being on the following basis – 3 DUP, 3 Sinn Fein, 2 UUP, 2 SDLP
- The meeting on 27 November should be chaired by one of the Deputy Speakers (Mr Francie Molloy and Mr Jim Wells) (who shall not count for the purposes of the composition set out above) with future chairing arrangements to be agreed by the Committee



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- The Committee's procedures, membership arrangements and arrangements, including chairing arrangements, for any subgroups of the Committee shall be such as shall be determined by the Committee.

I am content for officials in OFMDFM and other NI Departments to do all they can to facilitate the Programme for Government Committee and its sub-groups, including attending meetings and providing information, if this would be helpful.

A handwritten signature in black ink, appearing to be 'Peter Hain'.

**RT HON PETER HAIN MP
SECRETARY OF STATE FOR NORTHERN IRELAND**

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