



Northern Ireland
Assembly

**COMMITTEE FOR
ENTERPRISE, TRADE AND
INVESTMENT**

**OFFICIAL REPORT
(Hansard)**

Independent Review of Economic Policy

8 October 2009

NORTHERN IRELAND ASSEMBLY

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INVESTMENT**

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Members present for all or part of the proceedings:

Mr Alban Maginness (Chairperson)
Mr Paul Butler (Deputy Chairperson)
Mr Leslie Cree
Ms Jennifer McCann
Dr Alasdair McDonnell
Mr Alan McFarland
Mr Gerry McHugh
Mr Stephen Moutray
Mr Sean Neeson
Mr David Simpson

Witnesses:

Professor Richard Barnett) University of Ulster

The Chairperson (Mr A Maginness):

Welcome, Professor Barnett. This is an important occasion and an important report. We look forward to hearing your comments on the report.

Papers have been provided to members. They include the executive summary of the report and a paper from the Committee Clerk. Also included in the papers is a memo from the Committee for Finance and Personnel asking us to consider how a co-ordinated scrutiny of the

issue will be undertaken by the relevant Statutory Committees. As members will understand, a number of Committees are interested in the 'Independent Review of Economic Policy', and pulling all the views together will be a complex process. We will have to consider that matter in due course. However, we have lead responsibility in the matter and it is important that that is borne in mind.

I also refer members to a copy of the Minister's statement to the Assembly regarding consultation on the review; a copy of the letter inviting responses to the consultation by 16 November, which is a shorter period than usual, and a press article relating to the review. I now invite Professor Richard Barnett, vice chancellor of the University of Ulster and chairperson of the review panel, to address the Committee.

Professor Richard Barnett (University of Ulster):

Thank you for the invitation to meet the Committee. This is my third meeting with the Committee. However, I am aware that you, Mr Chairperson, and several members are new to the Committee and will not have been aware of those earlier engagements. I am in your hands. I do not want to be repetitive, but I want members to be up to speed with what was discussed earlier.

I spoke to the Committee early on, when I discussed the way in which the panel intended to go about the review. In the main, we followed that course; we called for evidence and looked at best practice elsewhere. I will return to the issue of looking at best practice outside Northern Ireland and seeing how other economies have made a step change. At about the halfway stage, when we had some of our findings, we had a useful and constructive discussion with the Committee, and people provided input at that point about our direction. We went on from there, and have now completed our findings.

I welcome the Chairperson's statement in the Assembly earlier this week, in that I believe that this is an evidence-based and robust piece of work. As is always the case in such issues, the report is quite complex. I welcome the fact that the Minister not only commissioned the review, which is good practice, but that there will also be a consultation period. However, I hope that it will be informed consultation, because some of the early responses on the report, as one might expect with such a detailed report, picked up on certain aspects, and I would not want those aspects to cloud the overall debate that may begin and develop today. Thank you again, Mr Chairperson, for your comments, and I am happy to give the Committee a brief summary of some

of the report's findings.

The Chairperson:

That would be helpful. I do not want you to find yourself in the position where you are repeating things ad nauseam. Perhaps you will give us a precis of how you view the report and what you regard as its most important element, because we all have our own ideas of what the report contains. To put it bluntly; what is different about this report and why is it different from previous reports and reviews?

Professor Barnett:

I will spend around 10 minutes answering that question.

We have taken an evidence-based approach. It was also important that we looked and commissioned work outside Northern Ireland. Relatively few economies have made a step change in their performance. However, some have. Northern Ireland needs to make a step change, so we wanted to look at why some economies have made such a change and what they have been able to do. It was incredibly useful to bring that into our discussions, because, coming to the matter as an economist, I tended to think that perhaps it was all about policies and that if we could find the right policies here and there, we would get the right outcome.

However, it is clear that for those economies that have been able to make a step change, it is about making the economy the number-one priority; being consistent in that, and recognising that there is no quick fix. We have been unable to provide a silver bullet. No one has found one. It will be a long, hard slog, and we cannot be diverted from that long, hard slog by short-term measures. We must also focus on the areas in which the Northern Ireland economy has a comparative advantage and can compete internationally. We must identify where we have a potential strength; focus on it, not be diverted from it, and continue with it.

What has influenced us greatly has been that the issue is not just about policies; it is about the entire governance structure surrounding the system. Having the right governance structures will ensure that the economy is number one; that it is led from the top as such, and that the entire Government are committed to it. Also, in all strong economies, there is a successful, business-orientated, business development agency. That agency is outcome-driven, not process-driven. Outcomes are reviewed during a broad period of time rather than on a piecemeal, ad nauseum,

programme by programme basis. That is why our report focuses as much on the need for change in governance as it does on actual policies. Undoubtedly, you will wish to discuss that further.

A clear issue in the report is the need for change: the status quo is not an option. We commend the Executive for making productivity and the economy their number-one priority. It must also be borne in mind why productivity is important, because people sometimes miss that point. It is only through high productivity that high wages can be paid and people can have higher living standards. Ultimately, this is about improving living standards. It is important, therefore, that there is high productivity.

During the review, we have seen that it has not been possible to achieve any improvement in relative productivity: it is stuck at around 75% to 80%. Therefore, although there has been success in creating jobs, there has not been success in raising the level of those jobs. That is, if you like, the stylised fact of the situation at present. Also, there is the context of the need for change, and the fact that there has not been an improvement in relative productivity symbolises the fact that there is a need for change. The other aspect of the need for change is that we know that public finances will get tighter and that there will be a need for value for money. That is why I commend the Minister for commissioning the report. It is important that value for money is achieved in the economic development budget. We also know that EU state aid laws will tighten. The direction will change, and we must anticipate the new direction. Those factors are pushing the need for change.

We must also bear in mind that measures that have been influential in the past have often been relevant for a national economy. Northern Ireland is a regional economy and it must export. The only way that a regional economy can succeed is if it earns income, because it is not self-sufficient. If Northern Ireland is to export, it must be competitive, and the only way that that can be achieved is to put more emphasis on innovation and R&D, which is the key theme of our report. Innovation and R&D is not just about men and women in white coats, important as they are; it is about all things business-related and it deals with areas such as creating new products; doing things differently; making use of marketing, and the importance of enhancing leadership and management.

The report is saying that in promoting Northern Ireland, a clear value proposition is needed. Perhaps it has existed in the past, because Northern Ireland has some very well-skilled

individuals. However, the problem has been that such people have been sold relatively cheaply. That position must be shifted so that an innovation and R&D infrastructure is built around those well-skilled individuals. That will lead to the creation of an economy with higher value-added jobs and an innovation and R&D infrastructure that is built around the business sector. That is the direction in which we must push.

One might say that although the report is saying that, it is not stipulating which programmes are needed to deliver it. I believe that this approach is right because, if anything, there have been far too many programmes, which has led to businesses creating business cases in order to qualify for grants and not to develop their businesses. Invest NI, and the business agencies should be working with businesses to help them to develop their businesses and fit programmes around business development. I think that Invest NI seems to like programmes as those offer a defence mechanism against audits and are a way of “ticking the box”. Things have to be freer, and portfolio-based assessment, which has been discussed in the report, should be developed.

As regards delivery, smallness can be a disadvantage, but the smallness of Northern Ireland could be a key advantage, because it will allow for a quick response. In the past, structures here have not allowed us to take advantage of what could be our key advantage, and that is why the report suggests the creation of a Department of the economy. At the moment, skills are separate from enterprise and development, and we know that they work together.

The panel was greatly influenced by North Carolina, and I know that people from there have also advised the Department for Employment and Learning. In the further and higher education sector in North Carolina, skills development is linked to the economic development agency, meaning that there is a joined-up package.

I know the Committee might like to discuss other aspects, such as the small business sector and the social economy. However, the key theme of our report is that the economy is number one; we must understand what that means, and we must concentrate on it.

The Chairperson:

That was an excellent, succinct summary of the report. Members will probe further through their questions, and I am sure that you will respond accordingly.

Your report is very welcome. People will take different views on it, but the report is important and timely given the current economic circumstances. Everyone in the Assembly wants to see the economy developing in the direction that has been signposted by the report, and to make the step changes that are required.

I hear what you are saying about filling the productivity gap, but therein lies a tension. You say in the report that Invest NI was good at creating jobs, but that those jobs were lesser paid and of lower value-added status. You also say that although job creation must be welcomed, it did not bridge the productivity gap, because higher value-added jobs were not being attracted to Northern Ireland. I understand the necessity for a step change, but how does one reconcile that with the constant need for jobs, even lower value-added ones, and still progress and put emphasis on higher value-added jobs? I think that that will be a constant tension in any jobs development strategy that the Government will apply in Northern Ireland.

Professor Barnett:

I agree. However, as the report says, it is a matter of balance. We looked at the period since Invest NI was formed and found that, in the early years especially, the balance was not right. There was a buoyant international economy until around 24 months ago. An opportunity existed then to shift the balance regarding the pattern of work. We are critical of the fact that that shift did not take place during the buoyant times, when there was an opportunity to do so.

If Northern Ireland is to be competitive, then we must think about where it should be competing in the future. If we want higher standards of living and higher wages, we must compete for higher value-added jobs: we must make that move. We did not take the opportunities that were on offer during the buoyant times, so we must make them now during the tougher times. Let me ask this question: with which countries is Northern Ireland competing? Are we competing with Bangalore as it is today? I do not think so. Should we be competing with where we anticipate Bangalore will be in 10 years time? If we get our innovation structure right, we will still be ahead in 10 years time. It is right to say that a balance must be struck regarding jobs. We are not saying that people must get out of some jobs completely; rather, we are saying that a balance must be struck.

We also accept that it is necessary to get more people into the labour market. The rate of participation in Northern Ireland's labour market is low. However, a lot of people are excluded

from the labour market; so, ways in which they can be included must be examined. The social economy plays a key role in getting people into the labour market for the first time and helps them to move on. I emphasise that the question is one of balance: however, the current balance must be shifted. That should have been done during the good times, and the job is now more difficult. However, if living standards are to be improved, the balance must be shifted.

The Chairperson:

A lower cost base and lower wages, in particular, seem to attract people to invest in Northern Ireland. If we are aiming for a step change by attracting higher value-added jobs with higher wages, will we lose our competitive edge? Surely that will act as a disincentive to people who are considering investing in Northern Ireland.

Professor Barnett:

Lower cost has been used as a primary factor, and costs may well stay somewhat low. However, we are saying that the primary value proposition should not be about cost per se. It should be about highly-skilled individuals working in an environment in which the Government, rather than emphasising cost — and this is the key part of report — emphasise the fact that Northern Ireland provides an education and skills development sector that is responsive and works with firms.

Also, in the shift towards innovation and to the notion that there would be something in Northern Ireland along the lines of the VTT Institute in Finland — a research body that works with firms when they locate there — we would have a support network. Northern Ireland would be saying that if firms locate here, and we are talking about FDI, and indigenous firms as they grow, their R&D and innovation activity will be supported. That would be the sales proposition, and one would create the appropriate network. Other countries have done that. One would be selling a package of support to firms to stay ahead of the game if they locate here.

Mr Butler:

Thank you for your presentation. This is the second time that I have heard it. I welcome many aspects of the report. It is no secret that Invest NI has received a lot of criticism over the years. There is also the notion that there should be more emphasis on innovation and R&D in the Programme for Government. However, this puts a better focus on the situation. The social economy was also mentioned.

Some commentators are saying that the report states that most of the development will be in our cities. What will happen with respect to economic development in rural areas? You said that the social economy would deal with people in deprived areas and help them to get into the labour market. However, the report suggests that major investors should be able to locate wherever they feel is best for them. Although the social economy will help some people to get into the labour market, it will not be able to deal with the level of unemployment in some areas. That is in line with the criticism levelled at Invest NI, in that it has done little or nothing in areas that suffer from high levels of deprivation, especially in these islands. How do we deal with that situation? Obviously, one of the Government's targets is to try to eradicate deprivation and high levels of unemployment.

Professor Barnett:

First, we must accept that the private sector generates the income that raises the taxes that keep the rest of us and pays our wages. The Government would be going about things in the wrong way if they were to impose conditions on where the private sector must locate. Many high tech firms are not located in urban areas. For example, not many people predicted that Randox Laboratories would locate in Crumlin. However, it is an excellent firm and just the type that we want to attract with innovation and R&D. However, because of agglomeration economies, firms tend to locate in urban areas, and we must accept that factor if we are going to compete internationally. If we start putting conditions on firms that other countries do not, those firms are internationally mobile and they will locate elsewhere. We must accept that situation.

We could be artificial about the situation. We could say to firms that they must locate in certain areas, but we know from evidence that that does not often do much for the people who live in those areas. What matters is whether the people who live in those areas have jobs. Firms can locate in one place and people in other areas can commute to that place and take the high-paid jobs. This is a complex issue and it involves more than just where firms locate.

The Government must look at the fact that there are other ways to combat regional imbalance. It seems odd to me that, under the review of public administration, there has been relatively little movement of public sector organisations. Perhaps we should be thinking that the private sector, because of its nature and because it is internationally competitive, will tend to locate in certain areas and that the Government should locate agencies, etc, in other areas to compensate for that.

For the Government to say that they want to locate their organisations in certain areas, while those in the private sector, who pay our wages and have to compete, should be located in places that the Government do not want to go, is the wrong way to look at the issue.

We also need to form more linkages into the labour market in various ways. The social economy is one of those ways; social enterprise is important. The report states that the small and medium-sized enterprise (SME) sector is very important and needs to be developed. We appreciate that under the RPA, part of the responsibility for SMEs will go to local authorities, and we welcome that. Large local authorities will be able to do more, and there will be a focus on that, but there has to be some co-ordination of that activity.

We would also like to see more development of SMEs so that they can have a better link into the supply chain. What matters ultimately is export. Unless an economy can export, it cannot survive. Some SMEs do export, but many will not do so directly. They can do so indirectly if we link them into the supply chain of larger companies. That is a way of spreading activity without imposing on larger companies.

There has been a lot of comment about 10 firms getting one third of the investment. There is nothing wrong with that per se if they are the right types of firms, and many of them are, in that they are innovative, R&D focused and high-tech. We would like to see such firms anchored more into local economies so that more SMEs and other sectors can feed into them. It would also mean that those companies would not be so internationally footloose. Some firms locate here and are supported to stay here; but they are not integrated into the economy, so it is quite easy for them to get up and go. If, at an early stage, there were discussions about how they would link into the economy and the supply chain, how they would use SMEs, and whether we could give them the innovation support they require, it would serve to anchor them here. That is how it all fits together: they can be anchored in that way.

We have to accept that businesses have to compete internationally and that we cannot place artificial constraints on them. However, there are things that the Government can do, and linkages to the SME sector are important.

Mr Moutray:

Thank you for coming before us today. There has been much criticism of Invest NI over the

years. I believe that quite a bit of it is unwarranted. Do you believe that Invest NI has wasted £1 million since its inception?

Professor Barnett:

No.

Mr Moutray:

I welcome the recommendation in your report that Invest NI should reorganise its internal structures. Are there other ways that the organisation can improve efficiency and give better value for money?

Professor Barnett:

First, the report states that some of the activity could have been balanced better, and we need to make that shift now. There has been too much selective financial assistance where there is relatively low additionality. However, there has been additionality, and it is not wasted. There could have been more bangs for the buck as regards where we want to go if Invest NI had moved directly.

We asked people who they thought was responsible for setting economic policy in Northern Ireland, and there was confusion about where that responsibility lies. We think that there needs to be a strong Department of the economy and that responsibility for setting economic policy needs to be in that Department. I may upset colleagues in the Department of Finance and Personnel, if they are here, but sometimes that Department gives the view that it has a Treasury role. We have to bear in mind that Northern Ireland has a regional Assembly, and that there are not many Treasury roles as regards tax-raising powers here.

The key economic policy is to get economic development policy right. That is a DETI responsibility, and there should be a strong economic policy unit in DETI driving economic policy, which is then challenged elsewhere. As regards a strong economic policy; it is for politicians, through DETI, to set the overall strategy in order to give Invest NI strong, broad targets in productivity and jobs. Invest NI should be allowed to get on with the task for, say, three years and then be rigorously assessed on a portfolio basis on its performance. The organisation has taken a long time to come together from its legacy agents, and a lot of what those agents did has carried on, rather than there having been a root and branch change when

Invest NI was set up.

The Chairperson:

You are very strong about a single-point responsibility for economic policy.

Professor Barnett:

Yes.

The Chairperson:

That is interesting.

Dr McDonnell:

Thank you for your report. I will not nit-pick; I will simply say that I am delighted that the report is here and that it has started a debate which is needed badly. My question is very simple: how do we get from a process-driven operation to one that is outcome-driven? You talk about policy: the dilemma I have, and I will be blunt about it, is that when my colleague Sean Neeson and I worked on this Committee's predecessor seven or eight years ago, we tried to ensure that Invest NI would be autonomous or semi-autonomous. That autonomy was not permitted; and, for better or worse, the Department clasped Invest Northern Ireland to its bosom and strangled it. That might have been done for the best of reasons, but it appears, in the end, that the Department is smothering Invest NI's potential.

How do we move on from that? How do we break that stranglehold? If we do that — and perhaps I am pushing on too fast — then productivity, research and development and all the other things can follow. Indeed, it will become clear where the policymaking lies. Further to your report, what is the next step to achieve that, because that is the breaking point?

Professor Barnett:

That is the key issue. There has to be a single point of policy development, plus an agency that is accountable for delivering that policy. There has to be a key discussion now with the Northern Ireland Audit Office. That is key. The NIAO has to accept what you, as politicians, want to achieve. However, we have to accept that public money is involved.

The key is how to get value for money from public money and yet have an autonomous

agency. A mature debate is needed with the Audit Office about that. Nothing that we are suggesting would lead to a lack of public accountability. It would be a different type of accountability. However, as long as there is a situation in which there is movement only on a programme by programme or project by project basis and where there is an Audit Office report and PAC discussion after each step, you are imposing risk-averse decision-making on the individuals concerned.

You must move away from this, and there is no reason why that cannot happen. I hope that the Assembly will say to the Northern Ireland Audit Office that it wants a change that recognises that there is value for money in portfolio-based assessment, on whatever basis the Assembly decides — say, a three-yearly basis — and asks the Audit Office to come forward with proposals on how to achieve that. That is the key thing. As long as there is a process-driven audit culture in the background, we will not be able to make the changes that we need to make. There has to be a discussion involving the PAC, the Audit Office and others as appropriate to decide how we can have a more mature form of audit?

A business agency has to be able to take risks, albeit those risks must be reasonable because the agency is using public money. We also know that there is no business in the world that makes decisions that are 100% correct, yet the Northern Ireland Audit Office assesses Invest NI's every decision as though it should be doing just that. We cannot have a successful business agency unless the structure of government lets it get on with the job. As politicians, you have to have the confidence that the agency will get on and do its job. After three years you can be tough on it when you ask it to account for what it has done. The chief executive will have to appear here and be answerable to the Assembly for the agency's performance up to that point. That is crucial.

Dr McDonnell:

Thank you for that; I am delighted with your answer. How do we exploit the goldmine that is the biomedical industry? We have the resources and ingredients here, yet we are not able to square that circle. I do not know whether the problem is cultural — and I declare an interest as one who previously had a medical career — but there seems to be an aversion among the medical fraternity to make money from medical research and the medical industry. Do you have any opinions on how that might be opened up? The University of Ulster, Queen's University and our hospitals have completed some high-quality work, but we do not seem to be able to bring it all together and create a product. Things are happening with respect to devices, but we are not

making medical products.

Professor Barnett:

I am not sure that I can give you a specific answer, but you are quite right. It is a key area; the two universities have considerable strengths in that field, as do some of our most successful local companies, such as the one that I mentioned earlier. The MATRIX report sits alongside our report, and it is important that both sets of recommendations are put together. We are trying to develop an innovation ecosystem, and the MATRIX report identified key areas in that regard. It is a matter of deciding where to concentrate our efforts. It could be said that the MATRIX report identified one or two too many areas of concern, but the pharmaceutical and biomedical industries would fit into an innovation and R&D framework. Our report and the MATRIX report both call for an innovation ecosystem, which would be the perfect place in which to produce a case study and develop those ideas. That is, perhaps, a more general answer to your question.

Mr Simpson:

Thank you for your report, Professor Barnett. There is a lot of bedtime reading in it, but it is very interesting. The main aim of the review was to determine whether existing DETI and Invest NI policies, programmes and resources would contribute to the delivery of the Programme for Government. You clarified your view on that in your opening comments when you said that the status quo cannot remain. Therefore, those existing policies were not adequate and could not tie in with the Programme for Government's requirements.

You also mentioned R&D. I have been in business in Northern Ireland for the past 30 years, and I am concerned that, although larger companies can avail themselves of R&D, smaller companies find it difficult to do so because they are hands-on. How can we help the smaller indigenous businesses in Northern Ireland who feel that they are being left behind and that the focus is on the larger employers?

The report proposes the appointment of an independent economic adviser. Will you elaborate on that a wee bit, just to put more beef on the bones? Dr McDonnell talked about greater autonomy: that might mean that there should be DETI representation on the board of Invest NI. I do not know how that would work, but will you elaborate on that? The R&D issue is of interest, because it is one that is raised with me quite a lot.

Professor Barnett:

The SME sector is the bedrock of our economy and will remain the bedrock of our economy. We want to provide opportunities to link the SME sector into the supply chain of larger companies. That is an important part of providing opportunities for R&D in SMEs.

Recent statistics show that R&D in SMEs is increasing. Looking at where that is taking place, one will see that there has been a much faster rate of increase in the SME sector than in the large-business sector. Perhaps the change in the tax system has helped that. Many firms will have been doing R&D perhaps without realising or identifying it as such. That is why we need innovation networks. There are fixed costs to carrying out R&D. That is why the recommendations link into the MATRIX report and the research institute. Such an institute would be commercially focused. In Finland, the VTT Institute operates through businesses determining what research or innovation needs to take place and how the institute could help. Research is either carried out through the institute or is commissioned elsewhere. In that way, one can get the economies of scale that are so often needed in research. If an SME cannot undertake R&D itself, it can commission bite-sized activity through the institute. That is how the institute would link in with the report's recommendations.

There will be discussion around how that link would be developed. For example, the institute could commission research, because we know that, given the costs of setting up R&D and innovation, many SMEs cannot do it directly themselves. That is where we believe that there is an argument for continuing public support. Through that network, and a research institute similar to the VTT Institute, SMEs would have access to publicly supported R&D. It is crucial that that is linked in. That is why we think that Invest NI needs to do more to co-ordinate activity for SMEs.

With respect to an economic adviser; if the Department of the economy, or DETI as it is now, is to set economic policy, there will be an issue about where the Minister gets his or her advice. The Department would have an economic policy unit; however, an independent economic adviser to the Minister would counterbalance the advice that he or she gets from the departmental policy unit and give the process more rigour.

At the moment, we have not found much support for the Economic Development Forum. However, as Northern Ireland is relatively small, bilateral discussions already take place, and it is

important that those continue. For a Department of the economy to work, given that it would have a strong policy unit, the Minister would have to get his or her own advice in order to be able to challenge what is being said by the unit. The Minister could then set priorities for Invest NI to deliver, and the agency could be rigorously assessed on whether it has achieved those priorities.

As to whether there should be DETI representation on the board of Invest NI, that is not my area of expertise. One member of the panel, John Wright, looked at how such boards are structured elsewhere. It is often the case that there is tension, and we discussed that quite a bit. If there is a DETI representative on the board, would he or she be truly independent of the Department?

The Chairperson:

Is R&D exempt from EU state aid rules?

Professor Barnett:

State aid rules are more generous in that area and, looking forward, they will become more generous as Europe goes in the direction of the Lisbon Treaty and innovation and R&D.

Although the Minister commissioned the report for the medium-to-long term, we appreciate that we must start from where we are. It is important that DETI makes a case to Europe for the continuation of aid, but the indication is that that case is more likely to succeed if it focuses on innovation and R&D rather than on the standard Special Framework of Assistance (SFA) aid. Although that fits with the European agenda, the EU is more generous in the area of R&D.

Ms J McCann:

Thank you for coming along again. I welcome elements of the report but have concerns about others. I want to concentrate on Invest NI and the social economy in particular. Whether Invest NI offers value for money and is spending public money correctly are questions that have been raised time and again. Over the years, Invest NI's emphasis has been skewed towards FDI and has been less focused on the small and medium-sized businesses that are here already. I could list many companies, such as Visteon and Seagate, which have come here, pocketed public money from Invest NI and given little back in return.

To a degree, I welcome the criticisms and concerns expressed about Invest NI in the report.

However, I am concerned because the focus on lower-paid jobs has created even greater inequalities and poverty in society. The report is saying that Invest NI's performance has been poor but recommends that it should have greater autonomy. Given that front line services and essential services are being cut while massive amounts of money are going into Invest NI, I disagree that it should be more autonomous: Invest NI must be made more accountable for its use of the public purse. I would like to hear your opinion on greater autonomy.

I welcome the fact that you have requested a study on the social economy, particularly on its potential to reduce deprivation and disadvantage and create employment in local areas. You have examined best practice elsewhere. In Scotland, England and the South of Ireland, major investments are made by the Governments in social economy projects. It is not about creating low-paid jobs in communities, it is about tying in local and central government contracts and public service agreements. That is important in other places but not here. Again, that is due to Invest NI's potential investment in the social economy. How could that issue be taken forward? It is essential to consider how to combat poverty and disadvantage in local communities.

Professor Barnett:

I will address the first point, which was about FDI, and it goes back to the Chairperson's point that it is a matter of getting the balance right. FDI is important, and all successful economies have achieved the right type of FDI. Northern Ireland wants more higher-paid jobs, firms with good techniques and high levels of innovation and R&D. Often, FDI provides a quick way of importing those skills; it plays an important role in that sense. The idea is to use firms as anchor tenants; I am not sure that we have always done that successfully. When building a shopping centre, certain anchor tenants are desirable, and it is sensible to be generous to those anchor tenants and, subsequently, develop other businesses around them.

Seagate is important in Derry. However, when it arrived, was there any discussion with that firm as to how we could work together? Was it discussed as to how the SME sector could work with Seagate and how we could work with the company with respect to the whole supply chain and getting people back into the labour market? It is that aspect that we are referring to in the report, as well as the need to be more sophisticated in using FDI to bring in and anchor foreign companies here. Therefore, the notion of an anchor tenant is crucial. FDI is the right type of investment to make that happen, and it important that it is used in that way.

As regards autonomy and accountability, it is important that Invest NI is accountable. Its counterpart in Dublin has been successful in being both autonomous and accountable, and there have not been the same levels of conflict there, or in other places, that we have seen here. Autonomy and accountability can be achieved, but one cannot expect a business-type agency not to take risks and not get some things wrong. One must examine the agency on a portfolio basis to discern whether it has got things right on average, and whether it has lifted the economy generally.

Invest NI's budget is very large, and we must make sure that it provides value for money. Indeed, that is why the report calls for a shift in focus. However, as we move into difficult times it must be realised that that budget must be protected and not directed into other areas. I am aware that there are pressing needs in health, social housing and other areas, but it is well known that the higher proportion of the population that is in well-paid jobs, the lower the demands that will be placed on those areas.

I appreciate that the Assembly will have to make tough financial decisions, but if the short-term view is taken, and all of the money is put into other areas rather than into stimulating the economy, then money will always have to be directed into those areas, because we will not have developed the economy or secured high-wage jobs. An investment in the economy budget will mean that less investment will be required elsewhere, and as long as that budget is protected more people will have jobs, meaning less unemployment and fewer demands on the Health Service and less need to tackle poverty.

Ms J McCann:

I am not suggesting that Invest NI should not be protected, but it must deliver outcomes.

Professor Barnett:

I agree, and the report suggests a way in which it can deliver outcomes and be assessed.

As regards the social economy, the panel witnessed some excellent examples of how that is being used at the local level in areas of relative deprivation to get people into the labour market for the first time and enable them to move on. We did not examine the social economy beyond that, and I know that Jennifer would have wished that we had done so. However, the panel concentrated on private sector development. I recognise that the social economy has a role to

play. However, whether the social economy should be part of Invest NI's responsibility is a matter for consideration. I do not believe that it should, because the agency has a job to do, and it should be given that job and told to get on with it. Furthermore, DETI is not the only Department involved in the social economy; DSD also has a role to play. We must examine how that important part of society will be best developed, and it might be best developed outside of Invest NI.

Ms J McCann:

I disagree. The social economy is part of the economy in general, and to make DSD the main driver of the social economy would be wrong. It is the responsibility of DETI to build the economy.

Professor Barnett:

The report said that DETI should look at it, but there are other relevant Departments.

Mr Neeson:

I welcome the report and acknowledge the suggestion for a Department of the economy. Prior to devolution, we had the Department of Economic Development. However, I am not saying that it was totally successful. With respect to innovation and R&D, I would like more information about the VTT Institute in Finland. The other thing that I welcome and acknowledge in the report is that the development of the economy is an interdepartmental responsibility. How could an Executive Committee, which would involve several Departments, operate?

Professor Barnett:

The VTT should be looked at, because it has certainly delivered. If you went back 20 years would you have chosen Finland as an economy that would shift itself? Obviously, we looked at how it achieved that. Finland used the resources that it had. That is the important thing; to look at what you have, what you can build on, and be realistic. A key part of Finland's progress was the VTT, which was commercially focused research. That is what I meant about government and business working together: asking companies what innovation and R&D they require, and then government and the private sector paying for it.

That kind of structure needs to be put in place here. We are recommending that the VTT model is looked at because we were impressed by it. That precise model may not fit here —

every economy and society is different — but getting that innovation and R&D structure wrapped around our economy is crucial. The VTT model is one way of doing that. There may be other ways to achieve it, building on the MATRIX report and on what our report says. However, integrating and supporting such a system is what is important.

It is important that one Department is responsible for setting economic policy. It is also important that, at the political level, everyone owns that policy. That is what happens in successful economies, and it is why an Executive Committee on the economy is needed to discuss economic matters and formulate policy. It is also important for FDI purposes, because it would show that economic policy is important here; that it is being given the highest priority and is being discussed at that level.

Being relatively small can be to our advantage, because the First Minister, the deputy First Minister and Ministers can meet with potential investors and help with promoting export, etc. Northern Ireland can demonstrate commitment, but there must be ownership. It is not a question of saying: there is a Department for the economy, now get on with it. It must be a Department for the economy, but with ownership by the Executive through a Committee.

Mr Cree:

Thank you, professor; there is a lot of detail in your report. The report notes that:

“High performing investment agencies have cultures that are responsive, fast-moving and work to overcome bureaucracy.”

There is little in your report or anywhere to convict Invest NI on any of those counts. The report goes on to say that such investment agencies:

“are outcome, rather than process focused”,

and we touched on that earlier. That is a fundamental issue, but will require a fundamental change in Invest NI and DETI.

I also see in the report that only 15% of the Invest NI budget was directed towards the support of new jobs, which, again, speaks for itself. You highlight the need for innovation and R&D, and say that Invest NI needs to be reformed, and to:

“concentrate support to mainly small firms and to projects with a high Innovative content”.

You also mention that Invest NI has a client base of 2,500 customers only, whereas the vast

majority of SMEs were left to hang by their own tails. You talk about realigning economic policy and the promotion of innovation and R&D. All of those things point to fundamental change in the way that Invest NI and, indeed, DETI operate. We are talking about working to a situation in which we get a lot of new skills, which you highlight, to support FDI, exports, innovation and R&D, and small business support. To my mind, all those point to a fundamental change, major surgery, in the whole structure. Are you satisfied that Invest NI has those skills and that it can do that? How would it set about doing it?

In response to Sean Neeson's point, you mentioned the Finnish VTT Institute. I had the privilege of being there, and it is certainly well worth studying. There is also an excellent, competitive institute in Stockholm. Have you seen it?

Professor Barnett:

I have not seen it directly. We looked at Sweden, but the institute there was not a key part in shifting the country's economy. If there is an alternative, what we must do, as I said in my answer to Sean, is to see what fits us best. There are various models: we are interested in one; there may be others. It is important that we have a model, and we must move fast on getting it in place. The MATRIX report helps us to do that as well.

Fundamental change is required, and the report says that. What I will say, and this goes back to the earlier discussion, is that change is required because of the government structures that have been imposed on DETI and Invest NI. I make this point in the foreword to the report: if you put a structure on something, which assesses it all the time and on every decision that is made, you should not be surprised that people are very cautious when making decisions. When considering a situation, you have to look at the structures that have been put in place.

Some people have said that the original notion under which Invest NI was set up was different from what actually evolved. Invest NI has taken a long time to move, because it was not set up afresh: it is always easier to deal with a greenfield site. It took other units on board and kept too many programmes going rather than focusing on its purpose. I sense that there is the will to change; and there are opportunities for change. There is the desire for Invest NI to deliver much of what we are suggesting should be delivered. That is the key point.

Mr McHugh:

You are very welcome, Richard.

One theme running through the report, and through your evidence here, is the need for change. One of the difficulties and criticisms of Invest NI, from our point of view, is its slowness to change; and that applies to DETI too. We are also hamstrung by the fact that people have a tendency to look over their shoulders to what they call “the rest of the UK” rather than looking at us as a unit that can develop itself.

I have always been a great advocate of looking outside for ways to develop, but the problem with that can be that the places to which we are looking are ahead of us. Where is the thinking as regards the next generation of ideas or production? For example, the area of children’s games demonstrates that some people are thinking well ahead of others because of the speed of change in those products. However, that is not happening at the other levels. You said that Invest NI and DETI have not produced the goods during the good times. There is now a new world order in the economy everywhere, and it is an opportunity for us to have a proper look at things.

For a long time, policy has been criticised for making no difference. There was always a notion in Departments that mere MLAs would have no idea about policy and should be ignored. I do not know how MLAs can make a difference on the issue.

I want to make a point about making the change. Shipbuilding in Belfast was kept until it was well past its sell-by date: we should have made changes. The industry was supported by vast amounts of money, and that tends to be the case in the economic development of all countries, and it could be no different with the tick-box attitude of Invest NI. If I were to phone Invest NI on behalf of someone in Fermanagh, I would be asked immediately whether that person was a client. If they were not a client, all interest would be lost. What about the people who could develop our economy but are not being considered unless they are in the client base? There is a static thinking process, and there are people who are interested in the too-many programmes that you mentioned. I am interested in the programmes that we should be developing for the next generation in business, particularly SMEs, which are the only businesses in rural areas.

I am also interested in how we teach people to look outwards. I want to know how we can bring R&D to SMEs, because some of them are working on a day-to-day approach and are not

learning. Consequently, there will be no development.

Professor Barnett:

I agree that policy is needed to help people become outward-looking. Also, when one looks outside, it is clear that change is incredibly difficult and that very few economies have been able to change unless they have got into a crisis: change usually comes from crisis. We are facing a potential crisis unless we change, so the question is: can we change before we get into that crisis? There will be tighter public expenditure, which will affect our public-sector-dependant economy, and the EU will tighten its spending to concentrate on the accession states. Therefore, there is danger in thinking that we will be able to make a case and continue to be treated as something special. Those days are gone. With the new accession states coming into the EU, we are not that special, and London and Dublin do not have much money to give us. Can we anticipate that crisis and move on? Other countries get into a crisis and then change, and it is the same with many big organisations. Therefore, a step-change is important, and in DETI and Invest NI, I have found recognition of the challenges we face and a willingness to change.

We said that the client base is too restrictive and should be abolished. If we want innovation and R&D, then we have to seek it out. That links to your second point. You asked where the new programmes should be. In a sense, we are saying that there should not be any programmes. If you are programme-specific, people will write their proposals in such a way as to get money from the programme. However, when you are talking about innovation, who can say where the next development will be or what we should be funding? There should be an open discussion with anybody with a good idea about whether something will work. However, that returns us to the issues of accountability and auditing: programmes are good for auditing purposes. Instead of having a client base, there should be an open discussion about business cases that people want to take forward wherever they are.

Mr McFarland:

Thank you for your report and for your briefing today. At one point, the Chairperson and I were Chairperson and deputy Chairperson of the Committee for Regional Development, and we were involved in freeing-up Belfast Harbour. There was a major row about it, but our ideas were eventually accepted.

Alasdair said that he and Sean were on this Committee. The mice got at that and clamped it

down. However, the suggestions relating to the harbour were allowed to proceed, and anyone can see that that has been an extremely successful policy. We are not averse to freeing up decision-making, it is just that we lost control of things in October 2002 when the Assembly went down.

My question is slightly sensitive. Many people in the business community in Northern Ireland have been colleagues for 30 years and know each other well. They are also members of the Institute of Directors. We meet them regularly at receptions, and everyone knows everyone else extremely well in this small place. How can we get to the stage where the people who are driving Invest NI are working only for Invest NI on behalf of Northern Ireland and that there is no question of conflict of interest?

I shall give a hypothetical example: a young entrepreneur comes out of the University of Ulster full of brilliant ideas that will go far and sets out up a company that will wipe out an established company whose managing director sits on the board of Invest Northern Ireland. In that situation, how can we ensure that there is no suggestion of conflict of interest? I am not saying that such a suggestion ever existed; but, if we go forward from here, we must be certain that the people who are in charge of Invest NI have Northern Ireland plc as their number one priority, rather than leaving any suggestion that their company might lose out because of their support of innovation. That is a governance issue; we talked about it before, and I wonder how it can be solved.

Professor Barnett:

I was not aware of the discussion about the Harbour Commissioners. We could and should have looked at that to find out whether our suggestion can work. I am pleased that auditing is possible in an agency that is freer.

Your second question raises the key issue about the relationship between the board and the executive of Invest NI. Usually, the role of a board is to consider overall strategy and assess the performance of the executive. We found that the Invest NI board got involved in executive decisions that it should not have got involved in. That is not the governance role that boards are supposed to provide; they deal with strategy and assessment. The other reason that boards should not get involved in executive decisions is because it slows down the process. The body is, as Leslie Cree said, supposed to be responsive and quick-acting, but the decision-making process that results from the board structure serves to slow things down. The decision-making process

involves the board, then DETI, and, if approved, DFP. By the time that has happened, businesses should be up and running. However, if they are up and running, they are not up and running here.

The board must stand back, and the executive must be accountable to the board. If the board were to play its role in concentrating on strategy and performance measurement rather than on individual assessment of projects, that would remove any potential for what you have suggested. It would be useful if, when the opportunity arose, the board were strengthened by people who were completely independent in Northern Ireland and have international business experience. That would be a good thing for the board.

The Chairperson:

Thank you, Professor, on behalf of the Committee. That brings your interrogation to an end. As you know, there are a wide range of views on the report. That was a stimulating conversation, and we are grateful for your attendance. We wish you well.

Professor Barnett:

I thank the Committee. This is my third engagement with it, and I have found all those meetings to be incredibly useful.