

Second Report on the Economic Challenges Facing Northern Ireland

TOGETHER WITH THE MINUTES OF PROCEEDINGS, OFFICIAL REPORT AND
PAPERS RELATING TO THE WORK OF THE SUB-GROUP ON THE
ECONOMIC CHALLENGES FACING NORTHERN IRELAND.

Directed by the Secretary of State for Northern Ireland to be printed 6 October 2006

Committee on the Preparation for Government

Under the terms of the Northern Ireland Act 2006 the Secretary of State for Northern Ireland, the Rt Hon Peter Hain MP, directed on 26 May 2006 that a Committee should be established on the necessary business relating to the preparation for Government. On 12 June 2006, the Secretary of State directed that the Committee should be chaired by the deputy presiding officers, Mr Jim Wells and Mr Francie Molloy.

Membership

The Committee has 14 members with a quorum of seven. The membership of the Committee since its establishment on 26 May 2006 is as follows:

Mark Durkan MP
Dr Sean Farren
David Ford
Michelle Gildernew MP
Danny Kennedy
Naomi Long
Dr William McCrea MP
Dr Alasdair McDonnell MP
Alan McFarland
Martin McGuinness MP
*David McNarry
Maurice Morrow
Conor Murphy MP
Ian Paisley Jnr

* Mr McNarry replaced Mr Michael McGimpsey on 10 July 2006.

At its meeting on 12 June 2006 the Committee agreed that deputies could attend if members of the Committee were unable to do so.

Introduction

1. The Committee on the Preparation for Government met on 41 occasions between 5 June and 6 October 2006. At the first meeting on 5 June, the Committee considered the direction from the Secretary of State dated 26 May 2006 and the term ‘consensus’ in the direction relating to decisions of the Committee. A discussion followed and it was agreed that the Committee would regard consensus as ‘general all party agreement’. (A copy of the directions issued by the Secretary of State which are relevant to the work of the Committee are attached.)
2. At the first three Committee meetings, the members debated the arrangements for chairing the Committee but were unable to reach consensus on what these should be. The Secretary of State was advised on 7 June that the Committee was unable to select a Chair. On 12 June, the Secretary of State directed that the Committee should be chaired by the deputy presiding officers, Mr Jim Wells and Mr Francie Molloy.

Referral by the Secretary of State

3. At the meeting on 12 June, the Committee noted that, on 26 May, under the provisions of section 1(1) of the Northern Ireland Act 2006, the Secretary of State had referred the following matter to it –

‘To scope the work which, in the view of the parties, needs to be done in preparation for Government.’

4. During June, each of the parties made a detailed presentation on the issues that it considered needed to be scoped in preparation for government. These began with the presentations from the Alliance Party and the DUP on 20 June. The presentation from Sinn Féin took place on 21 and 22 June and was followed by the presentation from the SDLP on 26 June. The presentations concluded with the UUPAG on 28 June. The minutes of proceedings and minutes of evidence relating to these discussions can be found on www.niassembly.gov.uk/theassembly.

Working Group on the Economy

5. At its meeting on 20 June, the Committee considered a letter from the Speaker enclosing correspondence she had received from the Secretary of State about the establishment of a working group on the economy. The Committee noted that, on 16 May, the Assembly had resolved –

‘That a Working Group should be established to consider the economic challenges facing Northern Ireland and to make recommendations to a restored Executive.’

6. The Committee, however, was not able to reach consensus on the establishment of a working group.
7. On 3 July, the Secretary of State wrote to the Speaker to the Assembly on a number of issues, including the establishment of a working group on economic challenges. The Secretary of State noted that the parties had different views on the best way to give effect to the agreement in the Assembly on setting up the working group. He advised,

that given the aim of such discussion was to make preparation for the work of a restored Executive, he was referring the matter of discussion of economic issues to the Committee on the Preparation for Government under section 1(1) of the 2006 Act and directing them, under paragraph 4(1) of Schedule 1 to that Act, to set up a sub-group and report back to the Assembly in September.

8. This was followed, on 11 July, by a further direction from the Secretary of State to the Committee directing the establishment of three sub-groups, including a sub-group on the economic challenges facing Northern Ireland. On 17 July, the Committee agreed the terms of reference for this sub-group and the sub-group began its work on 20 July 2006.

Report on the Economic Challenges facing Northern Ireland

9. The sub-group submitted its first report on the Economic Challenges facing Northern Ireland to the Committee on 25 August. On 4 September, the Committee agreed that the report should be printed as the first report of the Committee on the Preparation for Government.

Debate in plenary

10. The report was debated in the Assembly on 11 and 12 September and the following motion was carried –

‘That the Assembly approves the first report from the Committee on the Preparation for Government on the economic challenges facing Northern Ireland; agrees that it should be submitted to the Secretary of State for Northern Ireland and calls on the Secretary of State to take action to implement the recommendations in the Report.’

New terms of reference

11. At its meeting on 4 September the Committee also agreed:-

- (a) new terms of reference for the sub-group as follows –
- 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;
 - To 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
 - To undertake further work on how an economic package/peace dividend could contribute to economic regeneration.

and

- (b) that the sub-group should submit an interim report to the Committee by 4 October 2006 on its work relating to an economic package/peace dividend and should report on the rest of its work by 23 October 2006.

Second Report on the Economic Challenges Facing Northern Ireland

12. The sub-group submitted its second report on 4 October 2006. The Committee considered this at its meeting on 6 October and agreed the contents of the report.
13. At this meeting, the Committee expressed concern that the sub-group could not fulfill, in their entirety, the terms of reference agreed on the 4 September because of the refusal of the Secretary of State to provide the necessary information. This followed notification from the Secretary of State, on 18 September (see letter page 79) that he could not accept the recommendation in the first report that the Department of Enterprise, Trade and Investment (DETI) should “commission an independent study into the relative economic benefits and comparative costs of a range of fiscal measures...” as fiscal issues are “excepted matters” and therefore outside the remit of the Committee.

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Sub-group Terms of Reference and Membership

Terms of Reference

1. To consider the results of the ERINI research and commissioned DETI study into the fiscal options to prepare a costed case for consideration by the Treasury;
2. To 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
3. Undertake further work on how an economic package/peace dividend could contribute to economic regeneration.
4. To report to the Committee on the Preparation for Government by 4 October 2006 on point 3 above and by 23 October 2006 on the other matters above.

Membership

The sub-group has 10 members nominated by the Preparation for Government Committee (PfG) comprising 2 representatives from the Alliance Party, DUP, SDLP, SF and the UUP. One of the 2 party representatives must be drawn from PfG, but substitutes may attend for either representative. The membership of the sub-group, including substitute members, since its first meeting on 20 July 2006 has been as follows:

Nominated members:

David Ford (Alliance Party)	Margaret Ritchie (SDLP)
Sean Neeson (Alliance Party)	Michelle Gildernew MP (SF)
Ian Paisley Jnr (DUP)	Mitchel McLaughlin (SF)
Peter Weir (DUP)	Dr. Esmond Birnie (UUP)
Dr. Alasdair McDonnell MP (SDLP)	David McNarry (UUP)

Substitute members:

Naomi Long (Alliance Party)	George Ennis (DUP)
Kieran McCarthy (Alliance Party)	William Hay (DUP)
Diane Dodds (DUP)	Mark Robinson (DUP)
Edwin Poots (DUP)	Dr. Sean Farren (SDLP)
Lord Morrow (DUP)	John Dallat (SDLP)
David Simpson MP (DUP)	Fra McCann (SF)
Nelson McCausland (DUP)	Barry McElduff (SF)
Alex Easton (DUP)	Philip McGuigan (SF)
Wilson Clyde (DUP)	Kathy Stanton (SF)
Robin Newton (DUP)	Roy Beggs Jnr (UUP)
George Dawson (DUP)	Leslie Cree (UUP)

Chairpersons

Chairpersons approved by the Secretary of State are listed below. Chairpersons have no voting rights.

- Jim Wells (DUP)
- Francie Molloy (SF)
- Naomi Long (Alliance Party)
- Alban Maginness (SDLP)
- David McClarty (UUP)

Quorum and Voting

The quorum set by PfG is 5, (excluding the Chairperson) with the proviso that a representative from each of the five parties must be present.

Voting is by simple majority and each party has one vote.

NB: The Preparation for Government Committee agreed a proposal by the sub-group to change the quorum requirement at its meeting on 18 September 2006. The quorum had previously been set by PfG at 7, excluding the Chairperson.

Executive Summary

The Preparation for Government Committee (PfG) approved the sub-group's first report on the challenges facing the Northern Ireland economy at its meeting on 4 September 2006 (PfG Report: 1/06R). In approving the report PfG agreed the sub-group's recommendation number 17 that new terms of reference be set to report further on fiscal issues and education and skills. PfG added an additional requirement in the new terms of reference requiring the sub-group to "undertake further work on how an economic package/peace dividend could contribute to economic regeneration." An interim report was requested by 4 October 2006 on the economic package, the principal purpose of which was to inform the political negotiations between the parties and the two governments scheduled for 11-13 October in Scotland.

The sub-group has had a little over 3 weeks to take evidence and prepare this report. The unavailability of key research work from DETI and ERINI has made the task more difficult and the Secretary of State's decision not to allow DETI officials to attend and provide evidence was a serious constraint. The sub-group appointed two economic advisers to assist it in its consideration and this has lent considerable academic weight to the report. It is hoped that the ERINI research will be completed before the sub-group's final report is due with PfG on 23 October 2006, and, if available, will be included in that report.

The report is structured around 4 sections: a case for an economic package; a review of the evidence presented to the sub-group; fiscal reforms as part of a package and other potential investment initiatives which an economic package might address. The sub-group believes that this provides the most helpful approach to assist the political parties during the negotiations. The views of the political parties are included at appendix 4, section 4 of the report and these are summarised in the main body of the report.

The report is not intended to be exclusive in its recommendations and the sub-group recognises that the political parties will wish to emphasise their own set of priorities in the political talks. It is hoped that the recommendations made in the report in respect of the preferred fiscal measures and potential projects for investment will provide a sharper focus to the negotiations. In particular the sub-group has heard convincing evidence on the need for a more competitive rate of corporation tax if Northern Ireland is to attract the high-value added Foreign Direct Investment (FDI) required to rebalance the economy and to achieve the higher growth trajectory needed to close the wealth gap with GB and the Republic of Ireland. The sub-group recognises that there are hurdles to overcome and that following a recent European Court judgement on the Azores there is little realistic chance of Northern Ireland gaining a more competitive rate of corporation tax without devolution and the transfer of fiscal autonomy.

The report sets out the possible/desirable ingredients for an economic package following devolution. The report also, however, provides a convincing case on the need for fiscal variation and further targeted investment required to regenerate the Northern Ireland economy irrespective of devolution or continued direct rule for a period. The sub-group commends this report to PfG and the Secretary of State and calls on both governments to reflect seriously on its findings and recommendations.

Recommendations

In reporting to the Committee on the Preparation for Government on how an economic package/peace dividend could contribute to economic regeneration, the sub-group makes the following recommendations:

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 tax reforms, financial investments and other measures, which will enable a step change in the Northern Ireland economy and lead to sustainable economic growth. (Paragraph 43)
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. (Paragraph 75)
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 this issue as part of an economic package. (Paragraph 90)
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 intensive 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. (Paragraph 92)
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. (Paragraph 94)
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. (Paragraph 96)
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. (Paragraph 97)

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 (Paragraphs 99–103):

- 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 Ireland.
 - Upgrading the A6 road from Toomebridge to Dungiven to dual carriageway. This proposal, taken with the plans to upgrade the road from Dungiven to Derry/Londonderry, would bring the entire Belfast /Derry/Londonderry road up to dual-carriageway and motorway standard.
 - Upgrading the A4 route from the motorway to Enniskillen up to dual carriageway standard with further study to cost links at this standard to the southern road system at Sligo with the cooperation 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 serious shortfall of approximately £40m in the current annual roads maintenance budget should be addressed as a matter of urgency.
- A Belfast Area Rapid Transit system should be created and the services in key network routes throughout Northern Ireland should be upgraded.
- A railway spur connecting Belfast International Airport to the existing network should be developed.
- 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.

b. Business Support Measures (Paragraphs 104–105):

- 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.
- 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.
- 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.

c. Technology and Knowledge Transfer (Paragraph 106):

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

d. Expansion in University Places (Paragraphs 107–111):

- That further expansion of student places should take place.

e. Tourism (Paragraphs 112–113):

- 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)
- 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.
- 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.
- That further investment in tourism infrastructure needs to be encouraged.

f. Other Proposals (Paragraphs 114–115):

- That the proceeds from the sale of underutilised public assets be retained in Northern Ireland.
- That an infrastructure fund should be established to overcome our infrastructural deficit.
- Subject to a transparent business/economic appraisal, there should be an acceleration of the redevelopment of the Maze prison site.
- 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.
- That an investment programme in energy conservation measures and technologies could lead to significant savings for local businesses.

- That there should be an extension of energy efficiency programmes and support measures to eradicate fuel poverty.
 - That there should be provision of state-funded free personal care.
 - 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.
 - 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.
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. (Paragraph 116)
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. (Paragraph 117)

Introduction

Background to the Report

1. In the economic sub-group's first report to the Committee on the Preparation for Government, which the Committee published on 4 September 2006 (Report 1/06R), the sub-group recommended that it be set new terms of reference to include further work on ***how an economic package/peace dividend could contribute to economic regeneration***. Having agreed the first report the Committee on the Preparation for Government requested this further work on an economic package by 4 October 2006. The purpose of this interim report is to inform the negotiations with the political parties and the two governments scheduled for 11-13 October 2006.
2. The first report to the Committee on the Preparation for Government identified a range of impediments to economic growth and made a number of recommendations, which, if implemented, will help to address the problems facing the Northern Ireland economy. This second report builds on the conclusions and recommendations of the first report in the context of how an economic package might be constructed and used to maximum effect.

Scope and Constraints

3. The sub-group has taken a broad interpretation of the term “economic package/peace dividend”, to include fiscal incentives, financial investments and other measures. It therefore regards the three aspects of its new terms of reference as being interrelated (i.e. the economic package/peace dividend, fiscal incentives, and education and skills).
4. An economic package, in itself, will not be sufficient to adequately address the deep-seated structural problems facing the Northern Ireland economy. Rather an economic package should be seen as necessary to pump-prime the engine of economic regeneration and to give a new devolved administration a reasonable starting position from which to tackle the economic challenges ahead. The sub-group also considers that a one-off cash injection would be insufficient and will not provide the sustainability required to drive the change needed in the economic fundamentals. It would represent more of the same flawed approach that has marked previous attempts to rebalance the economy. Instead, an economic package should include enabling measures, which will create a step change in the economy and lead to sustainable growth.
5. The weight of evidence to date points to the need for fiscal incentives as a key element of an economic package. In particular, the sub-group noted a growing case for Northern Ireland

having a competitive rate of corporation tax. However, the sub-group's efforts to gather evidence on the benefits and costs of the various fiscal options and reach firm conclusions were impeded both by the timing of the report deadline and by the unavailability of some key evidence.

6. In particular, ERINI had not completed the important study of the case for allowing Northern Ireland to have a rate of corporation tax equivalent to that available in the Republic of Ireland, as a means of promoting a higher and sustained rate of growth in the region (though the Director of ERINI, Victor Hewitt, kindly provided a paper to assist the sub-group's deliberations ahead of the completion of the wider study). Other research which was also not available in time for the report include a separate ERINI study of the practical and policy issues involved in setting up a differential corporation tax regime for Northern Ireland and a DETI study into FDI. Moreover, the sub-group hoped to obtain evidence on the fiscal options from DETI, but this was not permitted by the Secretary of State on the basis that fiscal policy falls within the area of excepted matters. In addition, DETI officials were prevented by the Secretary of State from giving evidence on the Department's priorities for public expenditure in support of economic growth. The reason cited was that the provision of such evidence to the sub-group could potentially breach the constitutional relationship between the officials and the Government Ministers they advise.
7. The Secretary of State's decision not to provide information on the potential costs and benefits of the fiscal alternatives or to commission the independent research called for in recommendation 16 of the first report has meant that the sub-group cannot meet all of its terms of reference. In effect the sub-group has reached its conclusions on the preferred fiscal measures without the benefit of the research data and with limited further assistance from government departments. The sub-group however welcomes the cost figures provided by DETI and DFP on Corporation Tax and Fuel Duty revenue foregone should the rate of the former be reduced to 12.5% or less and an estimate of the cost of harmonizing fuel-duty with the Republic of Ireland rates (Appendix 1).
8. Whilst circumstances, therefore, prevented the sub-group from reaching a definitive position on the optimum mix of fiscal incentives, the sub-group recognises that such measures should form a key element of an economic package and the report contains recommendations in this regard.
9. As part of its terms of reference, the sub-group will also be undertaking a more in-depth inquiry into the measures required to develop an integrated skills and education strategy. Again, this work will not be completed within the timetable for reporting on the economic package. The results of the work on skills and education will be contained in the sub-group's third report to the Committee on the Preparation for Government, which is due by 23 October 2006. Nonetheless, the sub-group has identified investment in skills and education as another key element of an economic package and the report also contains interim recommendations in this area.
10. Time has been the main constraint on the sub-group's work. The sub-group has had just over 3 weeks to take evidence and prepare this report. The sub-group however appreciates the need to report before the political negotiations commence and has sought to maximise the value added by this report to the political negotiations by fully utilizing its two economic advisers and by focussing on issues considered fundamental to any economic package i.e. fiscal

incentives, infrastructure, urban and rural regeneration and education and skills. The report also includes a list of suggested individual projects and areas where an economic package could be applied.

The Sub-group's Approach

11. Following a recommendation in its first report to the Committee on the Preparation for Government, the sub-group contracted two economists as special advisers to provide expert insight and advice in respect of the sub-group's new terms of reference and to assist in the preparation of the further reports to the Committee on the Preparation for Government.
12. The sub-group invited 39 organisations and individuals, including all who had provided evidence for its first report, to make written submissions in respect of the sub-group's new terms of reference. A number of key witnesses were also invited to give further oral evidence, focusing on how an economic package and peace dividend could contribute to economic regeneration, including the possible elements of a package.
13. The sub-group's deliberations on the economic package took place over three full-day meetings, which included seven oral evidence sessions, presentations by political parties and a focus group session, which was facilitated by the economic advisers. Further written submissions were provided by the political parties and by a number of the witnesses.
14. In considering how an economic package and peace dividend could contribute to economic regeneration, the sub-group structured its deliberations under the following four subject areas:
 - A case for an economic package;
 - Review of the evidence presented to the sub-group
 - Fiscal reform as part of an economic package
 - Investment initiatives and other elements of an economic package.
15. The report follows this structure. Under 'A case for an economic package', the sub-group sets out a definitive statement on the problems facing the Northern Ireland economy and the reasons why special measures are required to help rebalance the economy and increase productivity. Under 'Review of the evidence presented to the sub-group', the written and oral evidence is summarised and analysed and this, combined with specialist advice from professional economists, has informed the sub-group's conclusions and recommendations. Under 'Fiscal reform as part of an economic package', the sub-group has agreed a prioritised list of incentives, based on the evidence to date, and upon which government commitments might be sought. In light of the Secretary of State's decision not to provide any views or opinions on fiscal matters or to commission the independent research recommended in the first report, it may not be possible for the sub-group to reach any further significant conclusions on fiscal measures in its third report, though the receipt of the aforementioned research by ERINI will have a bearing in this regard. Under 'Investment initiatives and other elements of an economic package', the sub-group identifies a range of specific initiatives and projects

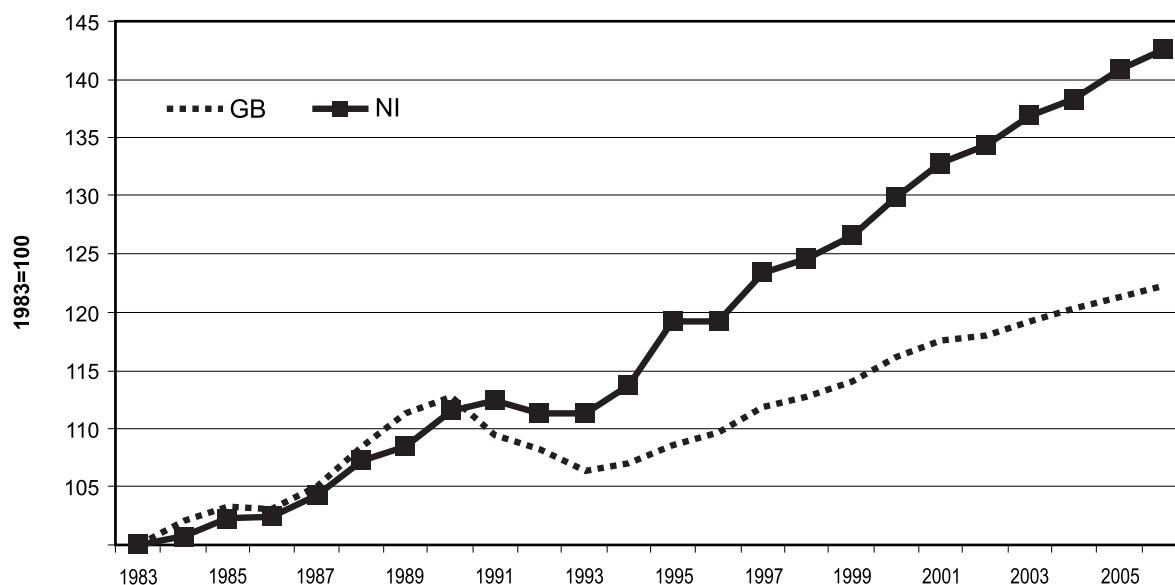
where it considers investment as part of a package could make a tangible difference to the economy. The sub-group also identifies a number of non-fiscal/non-financial measures under this section.

16. The report and associated papers are set out in a single volume. The appendices include: minutes of proceedings relating to the report and correspondence on procedural and other matters at Appendix 1; the Official Report of proceedings relating to the report at Appendix 2; the sub-group's work plan at Appendix 3, and written evidence submitted to the sub-group, including the submissions by the political parties, at Appendix 4.
17. The sub-group believes that the further findings and recommendations contained in this report will help to inform those aspects of the forthcoming political negotiations that concern the economy in Northern Ireland. Following consideration, the report should be published by the Committee on the Preparation for Government.

A Case for an Economic Package

18. Northern Ireland has one of the UK's least prosperous economies. Although it has traditionally been richer than the Republic of Ireland, the remarkable advances made in the Republic over the last decade mean that living standards are now also lower than in the South. Although Northern Ireland's position among UK regions is not unique, Northern Ireland's economy has had the additional handicap of 30 years of civil unrest/political instability which has delayed economic modernization and prevented the full development of several key sectors. Much of the violence is now thankfully a thing of the past, but continued violence and civil unrest/political instability mean that Northern Ireland's negative image abroad has not yet been fully reversed. As a result inward investment levels remain below their full potential and the tourist industry remains under half of its potential size.
19. The sub-group noted that high levels of public expenditure and relatively generous levels of government assistance to private industry have maintained a favourable record of job creation. The chart below shows that the rate of job creation in Northern Ireland has been almost double that in GB over the last 20 years. This has enabled much of the rapid increase in Northern Ireland's labour force to be absorbed, with the result that the previously high rates of unemployment have fallen to a level close to the UK average and well below the level in many EU economies. The sub-group recognises that employment levels are now high enough to attract substantial net inflows of migrant labour for the first time in perhaps a century. Even so, the sub-group is concerned that the proportion of working-age people who do not have a job in Northern Ireland remains well above the UK average, with particularly large numbers of people claiming incapacity benefit.

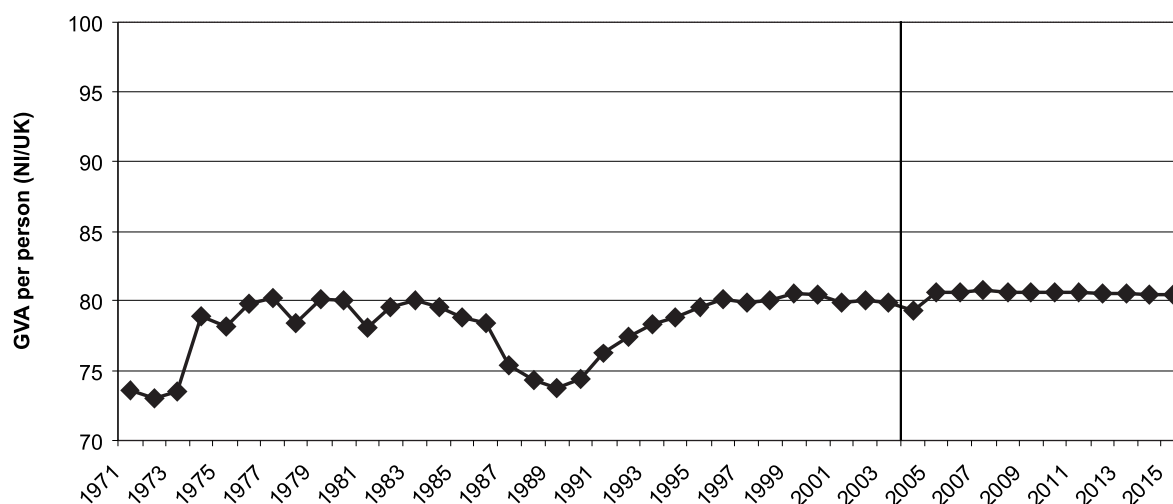
Employment levels in Northern Ireland and Great Britain (1983=100)



Source of data: DETI, and ONS employees in employment. Labour Force Survey (self-employed)

20. The sub-group notes the evidence of the Business Alliance that 141,000 new jobs would be needed to reduce Northern Ireland's economic inactivity level to the UK average by 2015. It also recognizes that current economic forecasts suggest that 100,000 new jobs will be created by 2015 under existing policies. The task of raising the employment rate in Northern Ireland (and hence reducing inactivity) is important but it is not obvious that job creation alone can achieve this aim. The structure of the Northern Ireland economy is characterised by a strong demand for relatively lower-paid jobs. This has a consequence of introducing large numbers of migrant workers to the economy. These migrant workers make an important contribution to the economy. In addition many of the economically inactive on incapacity benefit who wish to work are likely to require additional government assistance to be reintegrated into the workforce.
21. The sub-group takes the view that low productivity and low incomes are more pressing issues than job creation. Northern Ireland remains a poor region. On the most common measure of affluence, Gross Value Added (GVA) per person, Northern Ireland remains 20% below the UK average and 40% below the average for London and South East England. It also lies around 25% below the level of Gross National Product (GNP) per person in the Republic of Ireland¹. The projection in the chart below shows that GVA per person is expected to remain at 80% of the UK average for the foreseeable future if current economic policies remain unchanged.

GVA per person in Northern Ireland relative to the UK (UK=100)



Source of data: ONS UK regional accounts and forecast constructed by Regional Forecasts Ltd for the Economic Development Forum based on a continuation of current economic policy

22. Low levels of GVA per head imply low wages and low levels of profitability. Both in turn reflect low productivity, and Northern Ireland has the lowest average level of productivity (measured as GVA per employee) of any UK region. Average earnings in the private sector in Northern Ireland are around 25% below the UK average and Northern Ireland has proportionately more people on the minimum wage than any other UK region. Although public sector wages here are closer to the UK average, and household incomes are also supported by social security benefits, the sub-group notes that it remains true that average household

¹ Because a large part of GVA in the Republic of Ireland consists of profits belonging to foreign-owned companies, it is advisable to use GNP (Gross National Product) since this excludes foreign-owned profits and includes only income accruing to ROI residents.

incomes are the lowest of any UK region at 14% below the UK average and 30% below the level of London and the South East (see table below). For home owners, low incomes are somewhat offset by low average house prices, but this short term advantage is itself offset by lower capital gains on houses over people's lifetimes.

Average Household Incomes Per Head 2003 (UK = 100)

Region	% of UK Average
London	121
South East	113
East	109
South West	101
Scotland	96
West Midlands	92
East Midlands	92
North West	92
Yorkshire/Humbs	91
Wales	88
North East	86
Northern Ireland	86
UK	100

Source of data: ONS Regional Accounts

23. Several of those giving evidence to the sub-group stressed that low productivity and low living standards were the key economic problem facing Northern Ireland. Sir George Quigley put it as follows:

“The challenge is to find ways to develop and implement a new model that delivers a high-value-added, export-driven, well-balanced economy and closes the persistent wealth gap, and the growing productivity gap, between Great Britain and Northern Ireland, and still more between the Republic and Northern Ireland. Only a highly productive economy is capable of remaining competitive and, therefore, sustainable.

Only thus can we get out of the rut of an economy that provides low value-added, low-paid jobs, with all that that entails for access to opportunity, quality of life and standard of living. Only a radical change of direction will enable a move to a new growth path that achieves the necessary fundamental structural change - and I stress ‘structural’.”

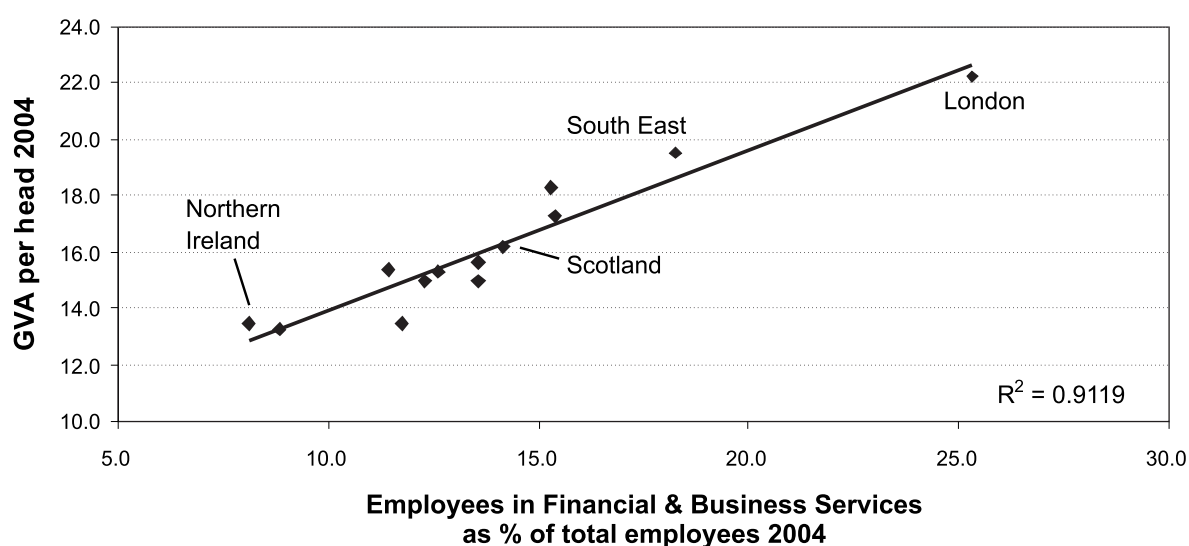
24. This definition was reinforced more trenchantly by Victor Hewitt, Director of ERINI as follows:

“It is clear that on present performance there is no prospect of the Northern Ireland economy making significant progress in converging with the average [per capita GVA] in the UK never mind with the Republic of Ireland in the lifetime of anyone now present.

On the other hand if such an outcome is not acceptable, if we are aiming for a much higher level of sustained performance than has hitherto been achieved then marginal adjustments to existing instruments of policy will not suffice.”

25. The sub-group acknowledges that the reasons for low productivity, and hence low incomes, in Northern Ireland are complex. One reason is that the Northern Ireland economy has a relative lack of companies in high productivity sectors and especially in financial and business services. A second factor is that the dominance of small firms in several sectors, including agriculture, construction, retailing and business services, means that average productivity is low within these sectors.²
26. The sub-group notes from the evidence that financial and business services are a particularly important influence on productivity and wages in advanced economies. The chart below shows that, within the UK, it is regions with large financial and business services sectors that have the highest average productivity (GVA per person). Northern Ireland is the leftmost region on the chart and has the lowest proportion of employees in financial and business services of any UK region (at 8% compared with a UK average of 15% and a level in London of 26% and South East England of 18%). In contrast there is no evidence that a large manufacturing sector helps to boost productivity or incomes across UK regions.
27. There are a number of reasons why Northern Ireland is handicapped by having a small financial and businesses services sector. Much depends on economic history. London and Edinburgh have long histories as financial centres and West Yorkshire has gained from its early association with the building society movement. Northern Ireland's economy developed on a basis of agriculture and manufacturing industry and the sub-group recognises that neither of these industries leads to high productivity or high incomes in UK regional economies. The sub-group notes that the recent history of civil unrest/political instability deterred service sector firms from moving into Northern Ireland. For instance, Northern Ireland missed out on most of the boom in call centre development until the ceasefires produced a situation in which there was little danger of disruption to operations through bomb damage or bomb scares.

Per capita GVA and Employment in Financial and Business Services 2004



Source: Regional Forecasts Ltd (Finance & Business Services excludes recruitment agencies and industrial cleaning)

² (see Gudgin, Gibson and Webb, 'Sectoral Influences on Low Productivity in Northern Ireland, DETI Economic Bulletin No 2, 2006).

28. Without a decisive move in the direction of a more balanced economy with more high value sectors, and especially with more financial and business services, the sub-group believes that it is difficult to see how Northern Ireland can close the wealth gap with the rest of the UK and with the Republic of Ireland. Similarly, without a radical change in economic development policy it is difficult to see how it can improve its place as the region with the lowest proportion of financial, business and similar high value-added services. Even though inward investment in call centres has accelerated the growth of employment in financial and business services in recent years, this has generally involved relatively low-wage jobs that have done little to close the wealth gap. There is an urgent need to develop more high-wage, high value-added, export-orientated companies in financial and business services and similar activities. However, there are few role models on how to achieve this within the existing policy framework. Invest NI are investigating how to assist such firms within Northern Ireland, but progress is understandably slow.
29. The sub-group recognises that the only rapid way to develop such firms will be through inward investment. The sub-group points to recent successes including the attraction of Citibank to Northern Ireland, but projected jobs in the Citibank project are currently relatively low level, back-office jobs. The Republic of Ireland has shown that it is possible to attract higher level jobs in these sectors, for instance to its International Financial Services Centre in Dublin³. The sub-group notes that the Republic of Ireland has done this through its low corporation tax regime which has proved attractive to high value-added service companies.
30. The sub-group considers it significant to reflect that it was low corporation tax (see also paragraph 32) in the Republic of Ireland that has also proved very attractive to high technology manufacturing companies. This has allowed the Republic of Ireland to achieve high levels of per capita GVA without developing as large a financial and business services sector as would be necessary within a UK tax regime. In fact low corporation tax has proved the ideal incentive to attract high technology companies to the Republic. Such tax concessions are particularly attractive to companies making large profits, and these tend to be in high technology sectors where products depend on high expenditure on R&D. As a result the sub-group noted that the Republic of Ireland has attracted a large share of US and other high tech manufacturing companies setting up in Europe. Much of the profit in such companies is a return to R&D undertaken in the USA, but companies gain hugely if these profits can be declared in a low tax regime such as the Republic of Ireland. The sub-group considers this to be a fundamentally important tenet upon which to build an innovative export-led and successful private sector in Northern Ireland.
31. The unparalleled success of the Republic of Ireland, unmatched by any other European economy in recent years, convinces the sub-group that only a measure of this kind could produce the desired step change in the Northern Ireland economy. The sub-group accepts the view of Victor Hewitt, quoted above, that marginal improvements to existing policy instruments will not be sufficient to attain a higher level of sustained performance. Northern Ireland has gone as far as possible with a grant-based regime. Levels of grant support for firms in the manufacturing and tradable services sectors are many times higher than in most of GB.⁴ The

³ The IFSC has for instance attracted 15 international Hedge Funds among many other financial companies.

⁴ It is estimated that firms in NI have received grant assistance of around £1000 per employee per year over recent years. Levels in GB regions are much lower with the average for England at only £22 per employee.

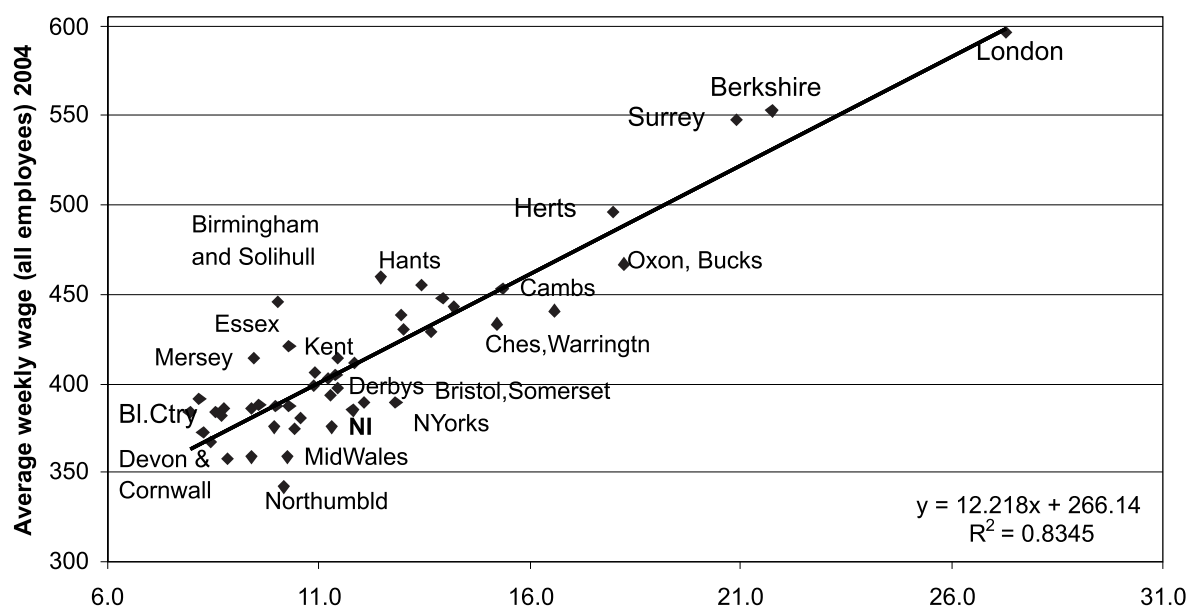
grant regime has successfully slowed the decline in manufacturing jobs and attracted a number of call centres and related activities. The sub-group notes however that this approach has largely failed to raise levels of productivity above the long-term ceiling of 20% below the UK average.

32. An effective financial incentive must, in the sub-group's view, form the basis of a policy of economic renewal. This is a necessary component of economic success but it is unlikely to be sufficient on its own. It is widely agreed that supporting policies, including successful investment in tertiary education, notably in regional technology colleges, have also played an important role in the Republic of Ireland. Large-scale investment in roads and other infrastructure, financed by the fruits of economic success, is also adding to the attractiveness of the Republic as a destination for private sector investment.
33. The sub-group is advised that in the international literature on economic development it has not always been easy to demonstrate an unequivocal benefit of the impact of improvements in education, although a recent paper appears to show that improvements in international literacy and numeracy test scores has a definite, if slow, impact of per capita GDP.⁵ What is clear to the sub-group is that within the UK, high levels of per capita GVA are strongly associated with high proportions of graduates working in the private sectors.⁶ The following chart shows that Northern Ireland has a low proportion of its private sector employees who are graduates. This would lead the sub-group to expect a low average wage (and hence also low average productivity) in Northern Ireland. Actual wages are even lower than expected and hence other factors are also relevant. The sub-group takes the view, based on advice from its economic advisers, that a major increase in the proportion of graduates in the Northern Ireland private sector would have to be an important component of any future economic strategy. This overlaps with a strategy based on financial and business services since many of the new jobs for graduates will be in these sectors. Even if it is accepted that graduates are an important factor in raising wages and productivity the sub-group notes that it is less easy to know how to promote an increase in graduate workers. The sub-group agrees that inward investment in high value-added companies is one way forward and that improvements in the attractiveness of Northern Ireland, and especially in its cities, is another.

5 *Coulombe et al (2004) 'International Adult Literacy Survey: Literary scores, human capital and growth across fourteen OECD countries. Statistics Canada'*

6 *High proportions of graduates working in the public sector do not appear to be associated with high levels of per capita GVA.*

Graduates and Wages in Northern Ireland and in Counties in England & Wales



% of Employees who are Graduates in the Private Sector 2001

Source: Regional Forecasts Ltd using data from Census 2001 and the Annual Survey of Hours and Earnings 2004

34. The sub-group notes that there is less evidence in the economic literature that improvements in lower level qualifications have as much impact on productivity as graduates. However the evidence of employers suggests that basic qualifications and positive attitudes to work make a large difference. This could be construed from the evidence provided for the sub-group's first report from employers such as Wrightbus Ltd and Mivan. The sub-group recognises that this may not be a large constraint on companies' operations now that immigrants from Eastern Europe and elsewhere form an alternative source of labour in low-wage jobs. The sub-group noted from the comments of Moy Park for its first report that many employers tend to view immigrants as having favourable work attitudes and good qualifications and the sub-group recognises that this may lead to the displacement of local workers. If so, this may also make it more difficult for some local workers to leave unemployment or inactivity. The experience of the Republic of Ireland does however suggest that an enhanced flow of inward investment, including many firms in high technology manufacturing, will require a flow of manual, technician, administrative and managerial skills. Although some Further Education (FE) colleges in Northern Ireland have responded well to existing needs of employers, the sub-group believe that there is a need for further improvement. If fiscal reforms lead to a major acceleration of inward investment significant investments may be needed in FE.
35. An economic revitalisation strategy that includes a large increase in high value services and associated graduates will inevitably be largely focused on the major cities, and particularly on Belfast. This is because financial and business services are predominantly urban activities and attracted to large cities. The sub-group recognises that increasingly, cities are the main drivers of economic growth in advanced economies. Cities compete through their attractiveness to potential residents, new companies, tourists, students and others. Competition for graduate residents, and for high-value added companies seeking graduates, involves making cities increasingly attractive in which to live, work and for leisure activities.

36. Although Belfast has become an increasingly attractive city in a number of respects over the last two decades, the sub-group believes it has still a long way to go to be as attractive as the best cities in GB or continental Europe. There is evidence to suggest that Belfast has received relatively little priority in funding within Northern Ireland, either for economic development or for physical redevelopment. In future a continued reluctance to prioritise Belfast may constrain economic development in Northern Ireland as a whole. The sub-group agrees that this is not only a matter of money. Organisation is also important. The almost complete absence of economic issues in the Review of Public Administration is in the sub-group's view a weakness, as is the RPA recommendation to restrict the Belfast boundary to its current size. The sub-group agrees that the need for improvement also relates to transport. Belfast has become a congested city, partly because so little investment occurred during the long years of the troubles. The current Westlink improvements will relieve some pressures, but there is also a need to revisit other infrastructure proposals including tramway and light rail links.
37. This is not to say that Belfast should be the only focus of a revived economy. The sub-group's recommendations at paragraphs 98-117 aim at a major increase of inward investment into Northern Ireland, and the sub-group agrees that much, if not most, of this would go to rural areas and towns outside Belfast and that investment would need to be policy driven. Similarly, the sub-group regards tourism as a sector requiring large-scale expansion. Again much, or most, of this would inevitably lead to gains in rural areas and small towns. In addition, the sub-group is conscious of a pressing need to improve road links, including inter-urban routes outside Belfast, and improvements to the accessibility of the south and west of the Province.
38. It is also not always easy to show a direct economic return to major transport infrastructure projects in a context where the transport system is already reasonably well developed. However it is natural for inward investors to prefer an area with good road, rail or air links other things being equal. The dramatic improvements in the Republic's road system in recent years means that Northern Ireland is in danger of becoming second rate in this respect. While some road improvements are planned under the current strategic investment plan, the sub-group considers that there is a need to accelerate the introduction of these projects and in some cases to add new projects. In competing with areas outside the island of Ireland for inward investment the sub-group believes that external transport links are likely to be more important. The sub-group agrees that there is a pressing need to increase the average speed achieved on Northern Ireland's roads to get people to work and products to market faster. Northern Ireland's connectivity by air has improved markedly in recent years, partly due to route subsidies, but improved connections to destinations outside the UK would further help to reduce the disadvantage of peripherality.
39. There is one other sector that is clearly under-performing in Northern Ireland. This is tourism. The potential for tourism to make a more significant contribution to the economy was highlighted by a range of bodies presenting evidence to the sub-group, in relation both to this report and to the sub-group's first report. These included the Industrial Task Force, the Northern Ireland Business Alliance, Tourism Ireland, NITB and the political parties.
40. Although the hotels, restaurant, retail and leisure sectors that gain most from tourism are not usually themselves generators of high productivity jobs the sub-group recognises that they can nevertheless contribute to raising productivity across the economy as a whole. They do this by providing a range of jobs that help to take people out of unemployment or inactivity.

The sub-group notes that many of these jobs are also likely to be in rural areas or in less accessible areas that are not strongly attractive to other sectors. Northern Ireland's tourism industry was once proportionately larger than that in the Republic of Ireland, but suffered hugely from civil unrest after 1968. Visitor numbers have grown steadily since the ceasefires, but the sector remains at around only a third of its potential compared with the Republic of Ireland or Scotland. Considerable public support has been given in the past for the development of both hotels and visitor attractions, but more is needed if tourism is to reach its potential within a reasonable time-scale.

Conclusion

41. The main justification for an economic package is that it has become clear the current framework for economic development policy in Northern Ireland is not capable of lifting productivity (per capita GVA) levels above a ceiling of 80% of the UK average. This leaves Northern Ireland as one of the least productive regions in the UK. Moreover it leaves average post-tax household incomes at the lowest of any UK region and 14% below the UK average. In addition the income gap with the Irish Republic is steadily widening and Northern Ireland remains at a competitive disadvantage in ways that will prevent any closing of this gap. It is clear that 30 years of civil unrest have hampered Northern Ireland's attempt to close the gap both within the UK and with the Republic of Ireland. Not least among the effects of the troubles were the shrinking of the tourist industry and the difficulties in attracting new inward investment. Almost a decade after the paramilitary ceasefires it is clear that much has improved, but that the productivity and income gaps remain unchanged.
42. It is in Northern Ireland's interests that the economic development framework should be changed to take the economy onto a faster growing trajectory. It is also in the interests of the UK as a whole. As the Treasury has pointed out, productivity levels in the UK economy are held down by low productivity in the poorest performing regions. As a result, the Treasury adopted a joint Public Service Agreement (PSA) target with the DTI and the Department of Communities and Local Government that aims to reduce the productivity gaps between English regions. The devolved governments make their own arrangements to achieve the same end. Anything that Northern Ireland can do to reduce the productivity gap will contribute to this national objective.
43. Furthermore, it is becoming clear that existing economic development within Great Britain is not succeeding in reducing the longstanding and persistent productivity gaps between regions. New thinking is urgently needed and the sub-group believes that Northern Ireland can make a substantial contribution to this goal by introducing novel forms of industrial incentive and by demonstrating that productivity gaps can be closed. The sub-group also believes that a more prosperous Northern Ireland economy will be to the benefit of the whole island of Ireland through enlarging the local market and by providing more active competition. **The sub-group, therefore, recommends 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 tax reforms, financial investments and other measures, which will enable a step change in the Northern Ireland economy and lead to sustainable economic growth.**

Review of the Evidence presented to the Sub-group

Introduction

44. This section sets out to summarise and evaluate the written and oral evidence gathered by the sub-group concerning the case for an economic package. It deals principally with arguments surrounding the case for fiscal incentives since the majority of witnesses supported such measures. In effect the main fiscal incentive being considered is a corporation tax reduction to make Northern Ireland competitive with the Republic of Ireland in terms of the attraction of foreign direct investment.
45. The current structure of the Northern Ireland economy has been produced by a set of circumstances that has not been replicated in any other United Kingdom region. It is widely acknowledged that for the greater part of the past 35 years the economy has been operating under a set of constraints resulting from prolonged civil unrest and political violence. As political instability and violence combined to deter private investment (particularly from overseas), public expenditure increased as an economic stabiliser. At times during the late 1970s and early 1980s, public expenditure became a surrogate for private sector investment. Nearly 25 years of state economic dominance has produced an economic structure that is no longer appropriate for Northern Ireland's long-term welfare.
46. Several of those giving evidence to the sub-group highlighted the imbalance between the public and private sectors as a constraint on the closing of the productivity and wealth gaps with the rest of the United Kingdom and the Republic of Ireland. Although there was some evidence that the economy has been changing, the nature of the change particularly in terms of employment growth was called into question. The Industrial Taskforce, the Business Alliance, the Economic Development Forum, InterTradeIreland and ERINI all expressed the view that much of the employment growth had been in low value-added, low productivity jobs. They concluded that there is little likelihood that on the basis of current policies Northern Ireland can make headway in closing the wealth gap. This point was put rather forcibly by the Director of ERINI when he advised the sub-group that, "continuing to do what we have always done will by and large produce the results that we have always achieved". Most witnesses called for structural or radical changes. On the basis of the evidence, the sub-group concludes that only a radical change of direction will enable the economy to achieve a higher growth trajectory.
47. The economic growth model most-favoured was the export-led growth model which necessitates a stronger, more outward facing private sector. There are, broadly speaking, two approaches to achieving export-led growth. In the first approach, efforts are concentrated on

boosting the performance of the existing Northern Ireland private sector. The second approach involves the attraction of investment from outside the region - foreign direct investment (FDI). While there was some support for adopting measures to boost the existing private sector (measures such as R&D tax credits, enhanced capital allowances, skills programmes, management development, innovation programmes and so on) these were felt to be long-term in their impact. The sub-group noted that there was considerable support for the FDI approach. Some argued that while Northern Ireland needed to improve the performance of the private sector this would be more readily achieved by the attraction of additional capabilities such as those found in mature, profitable international businesses that have global reach.

Fiscal Measures

48. The sub-group recognised that a stable political accommodation would enhance Northern Ireland's investment attractiveness but there was less certainty about how significant this might be over the short to medium term. In the context of a political agreement, the case for a corporation tax reduction to not more than 12.5% was supported by a significant majority of those presenting evidence. (The Business Alliance, while underlining the need to attract FDI, was not unambiguously in favour of a tax reduction and instead advocated a pragmatic approach - an objective, evidence-based assessment of all the options prior to a decision on the best, most deliverable outcome).
49. The sub-group noted that the economic case in favour of a corporation tax rate of not more than 12.5% rests upon four main elements:
 1. Evidence from the Republic of Ireland which has been spectacularly successful in attracting FDI. In the decade to 2004 the Republic of Ireland attracted £70 billion of FDI, some 25 times the Northern Ireland total. This performance has been the main catalyst for the very rapid economic "catch-up" achieved by the Republic of Ireland since the early 1990s.
 2. FDI projects tend to be more export oriented, value adding and more efficient than indigenous businesses. There is evidence that foreign companies can generate positive economic spillovers such as supply chains embracing indigenous firms, improvements in overall private sector management and the stimulation of spin-out and sub-supply businesses.
 3. The decision by the Republic of Ireland to adopt a 12.5% corporation tax rate for all businesses, while producing an initial tax revenue shortfall, has led to a significant increase in corporation tax receipts in subsequent years.
 4. The available research indicates that a reduction in the corporation tax rate does, other things being equal, lead to increased levels of FDI. Other factors such as the infrastructure, the availability of a flexible, skillable workforce, political and social cohesion are important in FDI decisions. Nevertheless, when countries have similar endowments of skills, infrastructure and social stability, the rate of taxation of profits becomes a defining issue in FDI location decisions.

50. The sub-group considers that this latter point is central to the case being made for a corporation tax rate of not more than 12.5% for Northern Ireland. The two economies on this island have fairly similar endowments in terms of labour supply, demography, education standards and infrastructure. The approaches to attracting FDI are radically different, with the Republic of Ireland favouring low corporation tax while Northern Ireland employs selective financial assistance. There also remain some residual risks to FDI in Northern Ireland from the absence of political agreement. The lower tax rate in the Republic of Ireland is still preferred by overseas investors to relatively more generous grants in Northern Ireland. ERINI, in its written evidence to the sub-group, made an informal comparison between Northern Ireland and the Republic of Ireland across a range of factors likely to be attractive to internationally mobile capital. This comparison showed that Northern Ireland fares reasonably well in most factors except political stability and fiscal incentives.
51. The evidence presented by ERINI and the Industrial Taskforce points to a steady growth in global FDI flows over the next five years. The Economist Intelligence Unit estimates that over the 2006 - 2010 period the annual average FDI inflow to the Republic of Ireland will be \$20 billion. (The United Kingdom inflow over the same period is expected to be around \$90 billion per annum). The Republic of Ireland will receive almost 1.6% of global FDI flows. ERINI estimates that Northern Ireland could attract between 1.5 and 4 times as much FDI as it currently does if it adopts a 12.5% corporate tax rate.
52. The sub-group awaits the results of the full ERINI study into the effects of corporation tax on FDI and on the impact of larger FDI flows on the Northern Ireland economy, including the Exchequer cost.
53. The other main fiscal measure evaluated by the sub-group was the use of an enhanced R&D tax credit. A research report by Professor Richard Harris, commissioned by ERINI, came to the conclusion that while enhanced R&D tax credits would elicit greater levels of research, development and innovation from firms, they do so at a very modest pace. Harris estimates that it takes 10 years for such tax credits to impact on the output performance of businesses and that the overall effects on the economy were of a relatively small magnitude. PricewaterhouseCoopers conducted similar research in Great Britain and also found that firms' take up of R&D tax credits was disappointingly low. Businesses seem to prefer grants to tax credits. The evidence on the utility of R&D tax credits is therefore patchy and a consensus view from the available evidence is that they would not have the same impact on the economy as a more competitive rate of corporation tax.
54. A detailed analysis of the fiscal options is provided later in the report.

Other Elements of an Economic Package

55. The sub-group evaluated a number of other elements of an economic package. Chief among these is the issue of skills formation. The sub-group will publish a more detailed and specific report on Northern Ireland skills and education needs and priorities at a later date. However the sub-group was presented with a range of views and evidence concerning this issue. Just

as FDI was generally viewed as a key ingredient in the package to rebalance the economy, the issue of skills was also given a high priority. The Business Alliance opined that Northern Ireland already has an adequate skills strategy but that there were concerns about how it was being implemented.

56. Some elements of the skills strategy are believed to be currently under funded and calls were made for this issue to be addressed as part of the package. The Business Alliance also believes that the region's FE colleges and universities are not sufficiently responsive to the economy's changing needs. The sub-group noted that the two universities have now collaborated to produce a plan outlining how they can make a more effective contribution to economic development. One particular area of concern in higher education is the decline in government funding for PhDs in key areas of science and technology. The sub-group believes that such a decline in funding is incompatible with the stated aim of creating a knowledge-based economy.
57. The profile and scale of current and prospective public expenditure in Northern Ireland was the subject of much discussion. Many of those presenting evidence noted that Northern Ireland public expenditure should be safeguarded for a transitional period in order to provide a stable context for other structural measures and reforms to bed down. In tandem with the need to underpin the package with public spending there was also a suggestion that a new devolved Executive should re-profile public expenditure to give greater emphasis to economic development. The Business Alliance, in particular, emphasised this point. Also, in the evidence provided for the sub-group's first report, DETI pointed to the fact that the proportion of the Northern Ireland total budget allocated to DETI has reduced as a consequence of other spending areas taking precedence. The Permanent Secretary of DETI, Stephen Quinn, stated that there was "a particular impact on the Invest Northern Ireland budget, which was reduced by approximately £50 million".
58. Some arguments were presented to the sub-group advocating the use of some additional resources to create a breathing space that would assist in the refocusing of spending priorities. The Director of ERINI explained that: "In the budgetary process there are usually great difficulties in shifting resources between programmes or resourcing new developments at the expense of existing activities, especially when this is attempted quickly. One means of enhancing the influence of a limited financial package, therefore, could be to use at least some of it to facilitate the orderly shifting of resources, allowing old measures to be run out and new ones to be established".
59. On a different tack, it was suggested to the sub-group that a case for a package could usefully be made with reference to the major public sector reforms currently underway in Northern Ireland (e.g. RPA, Water Reform, Rating Reform, Fit for Purpose, FE Means Business, Curriculum Reform). In its evidence for the sub-group's first report, DFP pointed out that this will illustrate that Northern Ireland is pro-actively targeting its public sector dependence and making public services more streamlined and efficient.
60. The spatial distribution of economic activity within Northern Ireland was also discussed in some detail in the evidence provided for the first report. It was generally held that infrastructural investment is required to facilitate more balanced economic development. In this regard the development of the West and North West would be enhanced by improving the road infrastructures for Border areas. Arguments were represented by the Business Alliance in favour of seeking

a contribution from the Republic of Ireland towards the upgrading of the N2 - A5 road. This proposal might then facilitate the joint development of the North West sub-region. A common programme to develop Derry/Londonderry as the economic gateway and key administrative centre of the North West of the island could bring significant benefits. By drawing resources from the entire Derry/Donegal sub-region, economic regeneration would be accelerated. This is currently taking place between Newry and Dundalk on the eastern seaboard where improvements in the necessary road infrastructure are now well advanced. The sub-group recognised that border towns drew a labour supply from both sides of the border and that local economies needed to focus on their natural hinterlands for market opportunities.

61. In terms of industrial development a number of witnesses suggested that the industrial development budget should be strengthened, in part because of (anecdotal) evidence that Invest Northern Ireland may not be able to support some inward investments. In addition Northern Ireland has the potential to take some overspill from an increasingly congested Dublin and this may necessitate increased resources.
62. Both the Business Alliance and the Economic Development Forum recommended that the £30 million per annum previously earmarked to offset higher energy costs for manufacturing industry but disallowed because of EU state aid rules, should be used to cap industrial rates at 25%.
63. Tourism was identified by some witnesses as having the potential to make a more significant contribution to economic development. There was a call for a tourism development strategy backed by firm targets while others noted that the tourism infrastructure was not fit for purpose.
64. The issue of adult literacy and numeracy as a serious barrier to further skills and employment was raised by a number of those giving evidence. An appropriate policy response is viewed as a matter of high priority.
65. In a similar vein several contributors commented about the persistent underperformance in Northern Ireland schools and the need for an effective policy response. Several contributors referred to the challenge of creating “routes for those with little or no skills into worthwhile jobs”.
66. A further theme from the evidence, presented for this report and for the sub-group’s first report, was the need for disciplined and co-ordinated implementation of the various government strategies which have an impact on the economy. John Simpson reflected this in commenting, in the context of skills and education, that “there are many visionary ambitions, many statements of intent BUT there is too little quantification of objectives and outcomes, too little setting of more ambitious timetables, and too little operational influence”.

The Views of the Political Parties

67. The 5 political parties represented on the sub-group presented two papers to the sub-group on the economic package. The first paper was included in the first report and a further paper was presented by each party for this report and is included at Appendix 4, section 4 to the report.

Alliance Party

68. The Alliance Party underlined the need for clarity on the issue of a corporation tax differential to attract FDI. The party questioned whether there was sufficient evidence that FDI would succeed in helping the Northern Ireland economy to converge with the rest of the UK, expressing concerns about the wealth distributional effects of such a tax break on existing businesses. The party sees a role for enhanced R&D tax credits in boosting levels of innovation and ultimately productivity and the Alliance Party call for a local taxation system based around a local income tax. In terms of spending, the party called for the maintenance of a 25% cap on industrial rates and for higher levels of investment in public transport. The party detailed a series of policy and reform measures that it would like to see implemented, including policies to build social capital, greater policy emphasis on tourism development, policies to encourage collaboration between schools and FE colleges, investment in alternative energy systems such as biomass. In general the Alliance Party wants to see a policy package in line with the vision set out in “A Shared Future”.

Democratic Unionist Party

69. The DUP emphasised the importance of fiscal incentives in the economic package. They called for all measures within the package to achieve sustainable outcomes and to grow the private sector in particular as opposed to cutting the size of the public sector. While recognising that it was not the complete answer to Northern Ireland’s productivity problem, the DUP lent its support to the campaign for a corporation tax break as an indispensable element of the package. The DUP accept that there is a compelling argument in favour of a tax break in view of Northern Ireland’s unique position within the United Kingdom and the party expressed a preference for a headline rate lower than 12.5%. The party noted some of the risks in taking the tax variation route, in particular implications for the Northern Ireland public expenditure block and the operation of the Barnett formula. The party also call for measures to deal with some North South fiscal distortions. They agreed with the Alliance Party in calling for industrial rates to be capped at 25%.

Sinn Féin

70. In its written submission, Sinn Féin challenged the view that the Republic of Ireland’s economic boom would not have occurred were it not for the low level of corporation tax, now less than half the EU average. While Sinn Féin is not opposed in principle to reducing corporation tax to 12.5%, the Sinn Féin view is that other factors play an equally important role. In particular human capital, in the form of education, played a very significant role in the rapid development of Ireland over the last forty years. The party position is that cutting corporation tax is not the only way to create a favorable enterprise environment. Corporation tax needs to be looked at in tandem with other measures that create a supportive enterprise environment. The party called for a progressive regulatory policy to ensure that the economy serves the needs of society and one that also benefits business and competitiveness. Regulating to protect public health, safety and the environment can have real economic advantages and can support enterprise and competitiveness domestically and internationally.

Social Democratic and Labour Party

71. The SDLP called for an agreed set of proposals in order to extract the best possible deal from HM Treasury. At the core of their proposals were calls for fiscal measures to facilitate the growth of the private sector and additional investment in both hard and soft infrastructures. The SDLP supports the case for corporation tax derogation for Northern Ireland. Echoing the views of the Alliance party and the DUP, the party emphasised the need to rebalance the economy by growing private sector activity and not by retrenchment in the public sector. The party called for balanced regional development and sustainable outcomes. In terms of expenditure, there was support for investment in R&D, in key infrastructure road and rail projects, a creation of new funds on both North-South and East-West bases to promote innovation. The SDLP restated its support for an all-island co-operation model embracing the joint provision of public services such as health, education and environmental services as well as collaboration in science, research and technology, labour market and skills, business and enterprise, trade and investment promotion.

Ulster Unionist Party

72. The UUP presentation set out three key principles in any economic package - prosperity, fairness and sustainability. Drawing parallels between Northern Ireland and the economic regeneration of Europe under the Marshall Plan, the party called for investment in skills, infrastructure and cohesion. In terms of skills, the party noted that there were still in excess of 200,000 people lacking basic numeracy and literacy skills in Northern Ireland and declared it a priority for action. The party called for more places in higher education in Northern Ireland and noted that public sector investment in R&D had been falling in recent years. They underlined the connection between health, economic inactivity and the social and economic costs that go with it. On infrastructure the UUP proposed making a case to HM Treasury for a green dowry to enable the “write off” of some of the investment burden facing the water industry. There was also support for rapid transit rail systems in greater Belfast in recognition of growing congestion on the arterial routes. On the cohesion agenda, the UUP proposed free personal care for the elderly and called for policies to tackle the issue of adult literacy and numeracy. On the issue of a corporation tax break the party articulated its interest in uncovering the arguments on both sides but stated that it was particularly concerned about the public expenditure implications of any such tax derogation.
73. To sum up, there was little evidence of dissent among the parties about the analysis of Northern Ireland’s key economic challenge - namely low productivity compared with the rest of the UK and the Republic of Ireland. There was a shared concern that the economic package under discussion should achieve sustainable, measurable outcomes. A majority of the parties favoured policies to stimulate private sector activity as opposed to rolling back the public sector. While the Alliance Party, Sinn Féin and the Ulster Unionist Party placed emphasis on investment (i.e. expenditure) plus some proposals for policy reform, the SDLP and the DUP unambiguously support the case for a corporation tax derogation.

Summary

74. The sub-group was presented with a body of evidence in favour of an economic package to rebalance the economy as part of a political settlement. The attraction of greater volumes of FDI was generally accepted by witnesses and the political parties to be an important element of the successful re-balancing by means of export-led growth. Evidence in support of a lower rate of corporation tax to make Northern Ireland competitive with the Republic of Ireland suggests that Northern Ireland could attract four times as much FDI as it currently achieves. A lower corporation tax regime was preferred to enhanced R&D tax credits as it is likely to have a greater impact within a shorter timescale. Other elements of an economic package might include:
- the safeguarding of public expenditure during a transitional period;
 - the re-profiling of public expenditure towards economic development outcomes;
 - the use of some additional resources to facilitate this re-profiling of expenditure;
 - the tackling of infrastructural barriers to create more balanced sub-regional development particularly in border areas; and
 - a rebalancing of the skills agenda.

Fiscal Reform as part of an Economic Package

75. The wide agreement from those giving evidence that reform of company taxation in Northern Ireland must be a key element of any economic package is accepted by the sub-group. The sub-group concurs with this evidence and recommends **that only tax reforms are likely to produce the necessary degree of economic uplift sufficient to raise Northern Ireland from its entrenched position as the UK's poorest region.**
76. Five aspects of company tax were raised in evidence. These were:
- **Corporation tax.** UK rates of 30% and 19% for small firms leave Northern Ireland at a competitive disadvantage with the Irish Republic.
 - **R&D Tax Credit.** Enhanced tax credits could help to raise the current low level of business R&D in Northern Ireland.
 - **Fuel Excise duty.** The high level of duty in Northern Ireland leads to significant loss of business for petrol retailers, and to criminality, especially in areas close to the border with the Irish Republic where duty is much lower.
 - **Climate Change Levy.** Although Northern Ireland has derogation for gas, the levy adds to the already high cost of energy for Northern Ireland producers.
 - **Enterprise Zone Status.** This could assist in urban regeneration.

1. Corporation Tax

77. Low corporation tax is now recognized as an efficient way of delivering rapid economic regeneration through accelerated inward investment by high productivity global businesses. Within Europe this applies to Switzerland, several of the new EU accession states, and most spectacularly to the Republic of Ireland. In the latter case it has been the main, if not sole, driver in lifting the Republic's economy from one of the poorest among the EU15 states to at the least the average for this group. Northern Ireland has a different regime focused on grants in support of capital investment and to a lesser extent in support of efficient operation. This regime is relatively generous by UK standards and many established firms in manufacturing and tradable services in Northern Ireland receive substantial financial support alongside inward investment firms new to Northern Ireland.
78. The existing support regime is attractive to many firms and has clearly led to a level of investment above that experienced in areas of the UK receiving less support. Although manufacturing employment has been falling in Northern Ireland (due to rising productivity, since output is on a rising trend), it has fallen less in Northern Ireland than in most parts of GB. This superior growth performance in Northern Ireland is usually attributed to the higher level of grant support here than in GB. However, experience shows that, despite higher investment, productivity has remained below the UK average, both in manufacturing and in

most other sectors. This is because the volume of new investment has not been as large as would be necessary to achieve this goal, and because the productivity level of new investments, although high, has not been high enough. This in turn reflects the difficulty of using a capital grant regime to attract high value-added companies in financial and business services and in high-tech manufacturing based on strong R&D.

79. The key advantage of low corporation tax is that it attracts very high productivity businesses. Much of the inward investment into the Republic of Ireland, for instance, has been in the high tech pharmaceuticals, IT and electronics sectors. Corporation tax concessions are particularly valuable to companies whose products are the result of high spending on R&D. The high value of the product is a reflection of the research rather than the production line, but if profits can be declared at a production site in a low tax country the company makes large financial gains. The Republic of Ireland has gained because 30-40 years of a low tax regime has built up a large stock of such companies making substantial contributions to tax revenues even at the low prevailing rates of tax.
80. It is difficult to predict how large an increase in inward investment would result if Northern Ireland adopted a low corporation tax regime. Research is currently being organized by ERINI and undertaken at Oxford University to shed light on what might be possible. The results of this research are not available to this report, but other sources provide some guidance. The Columbia University World Investment Report expects global foreign direct investment (FDI) levels to recover to their 2000 peak by 2010, dominated by flows between the USA and the EU. The expectation is that FDI inflows into the Republic of Ireland over the next 4 years will average 8% of GDP compared with 3% into the UK. Some of this will be in the form of purchasing existing companies rather than expanding or establishing new sites, but in the Republic the latter is likely to predominate.
81. If Northern Ireland had the same tax regime as the Republic of Ireland, and as a result became as attractive to FDI, then a similar level of inflow might be expected. This might not result in large numbers of jobs, since the manufacturing sector in the Republic is proportionately the same size as in Northern Ireland. However, the firms would be much more productive and would have high levels of profits. Wages in these firms might be higher than at present but probably not by more than 10-15%. There may be spin-off gains as these firms purchase inputs from local firms and act as training grounds for local managers and other employees. Some of the additional profits may be reinvested within Northern Ireland, although most are likely to repatriated or invested elsewhere.
82. One important gain to the Republic of Ireland is less clear in the case of Northern Ireland. In the Republic of Ireland, the large stock of externally-owned companies makes a substantial contribution to government revenue and hence helps to fund public expenditure. In Northern Ireland, corporation tax revenues currently go directly to the UK central government and have little direct influence on public expenditure within Northern Ireland. If the cost of a corporation tax reduction were borne by central government then additional tax revenues would also accrue to central government. If, as is more likely, the cost had to be funded from within Northern Ireland, then Northern Ireland would gain the benefits of the additional revenue, but the initial costs would be high.

83. It is not easy to estimate the cost of reducing corporation tax in Northern Ireland, because Northern Ireland is not a separate area for tax collection purposes and companies with headquarters elsewhere in the UK are likely to pay the tax earned at Northern Ireland sites from the HQ site. Nonetheless it is possible to make estimates. Under EU rules, tax reductions would need to apply to all firms in Northern Ireland and not solely to new FDI. Victor Hewitt estimated the cost of reducing tax rates to the Republic's 12.5% as £300 million per annum. The DFP estimate for the same reduction was £328 million per annum. The DFP estimate was based on tax revenues in 2003/4 and Victor Hewitt's estimate appears to be based on a similar date. Since UK corporation tax revenue is estimated by the Treasury to be 70% higher in the current tax year than in 2003/4 we would need to scale these estimates up by a significant amount. A reasonable range for the cost of reducing corporation tax rates to the level in the Irish Republic might be £400-500 million in the current tax year.
84. This cost would be offset from additional taxes raised as FDI and other activity expanded within Northern Ireland in response to lower tax rates. Taxes raised through FDI alone might take one or more decades to offset the full cost. If existing firms, including NI-owned firms, also raised their output and profits in response to the lower tax, then the breakeven point in tax revenues would be earlier. What is clear however is that the initial cost, over the first few years, would be high. If this cost were to be borne by central government there would be a clear net gain to Northern Ireland, although as outlined below EU rules probably preclude this. If the cost were borne within Northern Ireland then public expenditure would need to be reduced to offset the cost. One possibility would be to replace the existing grants schemes for companies (saving around £150 million per annum). Alternative expenditure reductions are likely to involve a loss of jobs at least in the short term.
85. In the Republic of Ireland, low corporation tax was available to exporters, and hence to most inward investors, for several decades before EU regulations led to a general reduction in corporation tax for all firms in the Republic. The Republic was thus able to accumulate a substantial stock of foreign-owned firms contributing to local tax revenue before the cost of a general reduction in taxes had to be borne. In Northern Ireland EU regulations are likely to mean that the full costs have to be borne from the beginning.
86. In terms of the legal feasibility of achieving a corporation tax rate in line with that of the Republic of Ireland there are several important issues to be confronted. As a result of the European Court of Justice's decision in the Azores case, it is now clear that Northern Ireland would have to fulfil three conditions in order to conform to EU state aid rules. In summary these are:
1. Northern Ireland must be politically and administratively autonomous within the United Kingdom; ***(there should be a devolved government)***
 2. The Northern Ireland government must unilaterally decide to introduce the differential corporation tax regime; ***(that the devolved government should have tax-varying powers)***
 3. Any tax revenue shortfall resulting from the corporation tax derogation should not be made up by a fiscal transfer or grant from the national government; ***(Northern Ireland would have to make up the tax shortfall from within its own public expenditure resources)***

87. In addition there are other serious issues to confront. Apart from the obvious political barriers, a corporation tax break for Northern Ireland would necessitate changes to the United Kingdom double taxation arrangements with the United States, Japan and the rest of the EU.
88. The case for a corporation tax reduction to make Northern Ireland competitive with the Republic of Ireland has hitherto implicitly assumed that this would be achieved through a differential tax rate of, say, not more than 12.5%. An alternative mechanism that achieves an effective 12.5% rate is through the use of corporation tax allowances. To illustrate, if the first 60% of corporate profits is taxed at zero and if the remaining 40% of profits is taxed at 30%, this gives an average rate of approximately 12%.
89. The operation of a lower corporation tax regime would give rise to a shortfall in tax revenues of between £400m and £500m per annum. This shortfall will decline over time as corporation tax revenues pick up from an expanded private sector resulting from increased FDI. The shortfall needs to be covered in order to obviate the necessity for budget reductions. There are several ways in which this shortfall could be mitigated:
- Northern Ireland's annual public expenditure underspend is running at around £400m.
 - Under the Reinvestment and Reform Initiative (RRI), Northern Ireland plans to borrow up to £300m per annum from HM Treasury. This borrowing could be redirected to cover much of the tax revenue shortfall.
 - Northern Ireland currently spends around £100m per annum on selective financial assistance to business. There would be less need for such financial support under a lower corporation tax regime.
 - Northern Ireland has one of the highest personal savings ratios in the United Kingdom. A new Development Bond aimed at local savers could attract upwards of £150m per annum (the equivalent of £100 per head of population).
90. The sub-group agrees that, based on the evidence to-date and despite the uncertainties outlined above, there is a growing case for Northern Ireland having a competitive rate of corporation tax. However, further consideration of the case will be required in light of the findings from the ongoing ERINI research and of the identification of solutions to the practical and policy issues involved in setting up a differential corporation tax regime for Northern Ireland. In the interim, **the sub-group recommends 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 this issue as part of an economic package.**

2. R&D Tax Credits

91. Because Business R&D is so low in Northern Ireland the sub-group is attracted to fiscal or other measures that could potentially bring Northern Ireland up to UK and international average levels. Research by the OECD suggests that R&D undertaken by business is more effective in raising regional or national productivity than R&D undertaken by the public sector including by higher education institutions. The sub-group thus takes the view that

efforts to expand business R&D are particularly important. In its first report the sub-group referred to the need to promote R&D in growth areas such as: biotechnology, renewable energy, life sciences, agri-food and nanotechnology.

92. The view of witnesses was that additional tax credits could raise output in Northern Ireland by around 1-4% but that this could be relatively expensive in terms of public expenditure. Other research findings suggested that few firms in Northern Ireland have taken up the existing tax credits and that a simple route to assistance, including grants was preferred by many firms. **In the light of this evidence the sub-group concludes that R&D tax credits should be given a lower priority in any package than reduced corporation tax, but if reduced corporation is unavailable then higher R&D credits should be tried. Reduced corporation tax may be more effective in bringing R&D intensive firms into Northern Ireland. If these arrive, means should be explored of increasing 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 sub-group noted that the research by Professor Harris indicated that the annual cost of doubling current levels of R&D tax credits would be approximately £10m pa. It has been suggested to the sub-group by DETI that a trebling of the rates might be required to make a significant impact.

3. Fuel duties

93. The long-standing and large difference in fuel duties between Northern Ireland and the Republic of Ireland has had important deleterious impacts on commerce and crime throughout Northern Ireland and particularly in border areas. Although England is not immune from similar impacts, particularly on tobacco duties in cross-channel movements, Northern Ireland has a particular problem with a long and porous land border that is easily reached from most parts of the Province. An examination of the ratio of petrol and diesel consumption to vehicle numbers suggests that a large proportion of Northern Ireland's fuel is now supplied from across the border either legally or illegally. This has put out of business a large number of fuel retailers and provided a large source of revenue for organized crime. It also deprives the Exchequer of large amounts of revenue and contributes significantly to pollution through unnecessary journeys to the Republic of Ireland to purchase fuel.
94. **The sub-group takes the view that fuel duties in Northern Ireland should be equivalent with the lower duties in the Republic of Ireland.** Evidence from DFP suggests that this would lead to an increase in legal sales of fuel in Northern Ireland of around 50%. The net result of lower tax rates combined with higher volumes of sales would in their view be a loss of annual revenue of around £124 million. **This estimate may be too high and we recommend a more extensive study 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.**

4. Climate Change Levy

95. The Climate Change Levy (CCL) was introduced in 2001 and is paid by industry, commerce and the public sector to encourage those sectors to increase their energy efficiency. It is

offset for employers as a whole by a lower rate of employers' National Insurance, but high energy users make net payments. The sub-group is pleased to note that the exemption given to the gas industry in Northern Ireland, to encourage substitution of coal and oil based energy by gas, will be continued for a further five years.

96. The sub-group recognizes the importance of the CCL as a means of encouraging energy efficiency. At the same time the sub-group accepts the view of industry that energy costs remain considerably higher in Northern Ireland than in GB. Moy Park Ltd for instance estimates energy costs to be 20% higher. **To offset the higher costs of energy, including the CCL, the sub-group recommends that the government revisits 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.**

5. Enterprise Zones

97. Several of those giving evidence recommended the introduction of Enterprise Zone status to a number of areas to stimulate particular types of activity, especially relating to urban regeneration. Since the sub-group accepts the view that cities are likely to be more important drivers of regional economies than in previous years, it takes the view that urban regeneration should be given higher priority in Northern Ireland. Enterprise Zones are a well established means of stimulating redevelopment in run-down areas, and two such areas have previously been established within Northern Ireland. **The sub-group recommends that a study be undertaken of the impact of those Enterprise Zones with an assessment of the potential for using Enterprise Zone incentives to aid regeneration in Belfast and other cities and towns throughout Northern Ireland.**

Investment Initiatives and Other Elements of an Economic Package

98. In addition to proposals for fiscal reforms outlined in the previous section, the sub-group recognises a need for additional investment in a number of areas of importance in supporting a competitive economy. These include transport infrastructure, enterprise, knowledge transfer, tourism, energy and the environment. These needs were outlined in the section on ‘A Case for an Economic Package’ and were reinforced in many cases by the evidence given to the sub-group which was summarised earlier in the report. **Having considered the evidence and the broad case for a package, the sub-group has taken the view that the following measures should be given priority within a balanced package.**

Transport Infrastructure:

99. In the section on ‘A Case for an Economic Package’ it was noted that Northern Ireland’s road infrastructure has become inferior to that south of the border. The sub-group views this as a matter of concern since its strategy based on accelerated inward investment is likely to suffer if investors view the Republic of Ireland as having a better communications system. In addition a considerable volume of written and oral evidence supported the view that at both regional and sub-regional levels Northern Ireland road infrastructure was not appropriate to reduce congestion, facilitate greater labour mobility, or to achieve more spatially balanced development.
100. DRD Roads Service has compiled a strategic roads strategy which completed its consultation process on 29 September 2006 (a copy is included in the section 5 of Appendix 4 to this report). This consultation document lists, in its Annex A, a number of strategic road developments that are currently funded and in some cases under construction. It also lists in its Annex B a number of proposals regarded by DRD as likely to be added to its roads programme but not yet funded. Finally in Annex C it lists other proposals that it assesses highly but which are not affordable under the existing ISNI plan. **The subgroup regards the projects listed in these annexes as requiring more urgent progress than is currently planned and these should be accelerated without delay.**
101. **The sub-group views a number of key strategic routes as of particular importance and recommends that the whole of these routes be brought up to dual carriageway standard.** This would include bringing forward the proposals in annexes B and C of the Roads Service consultation document and in some cases adding further improvements to sections of the roads. **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 Ireland.**

- **Upgrading the A6 road from Toomebridge to Dungiven to dual carriageway. This proposal, taken with the plans to upgrade the road from Dungiven to Derry/Londonderry, would bring the entire Belfast /Derry/Londonderry road up to dual-carriageway and motorway standard.**
- **Upgrading the A4 route from the motorway to Enniskillen up to dual carriageway standard with further study to cost links at this standard to the southern road system at Sligo with the cooperation 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.**

102. **In addition, the sub-group is aware of a serious shortfall of approximately £40m in the current annual roads maintenance budget and it recommends that this issue be addressed as a matter of urgency.**

103. **In the longer-term, the sub-group supports giving rail transport in general, and light rail in particular, a higher priority within Northern Ireland's transport strategy.** The importance given to cities as drivers of economic development in the case for a package leads the sub-group to give particular priority to relieving congestion in major cities and improving inter-city links. **The sub-group therefore recommends:**

- **The creation of a Belfast Area Rapid Transit system and the upgrading of services in key network routes throughout Northern Ireland would help to ensure that the region possesses a rail network that contributed towards sustainable economic growth.**
- **The development of a railway spur connecting Belfast International Airport to the existing network.**
- **Investment 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, extending and integrating the transport services offered, to increase viability and sustainability.**

Business Support Measures:

104. In addition to the debate about fiscal incentives to boost private investment, the sub-group was presented with a range of arguments and advice about policies to help improve the performance of local business. The sub-group accepts the evidence of some witnesses that the public service has become particularly risk averse in recent years and that this limits the effectiveness of economic development policy. **The sub-group thus recommends that:**

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

105. Mindful of the tightening of the rules governing the use of public funds to support business **the sub-group also recommends the following measures which could either take the form of challenge funds or could be added to the existing raft of economic development initiatives:**

- **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.**
- **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.**

Technology and Knowledge Transfer:

106. Public investment in the science base (i.e. funding for universities and institutes) in Northern Ireland does not compare favourably with levels of support in England, Scotland and Wales. This has a knock-on effect on our R&D performance. An economic investment package should seek to dramatically increase this public investment. **The sub-group recommends:**
- **That the creation of a Knowledge Bank to aid in technology transfer should accompany such increased public investment in the science base** (a similar initiative has been taken in Wales, where a budget allocation of £13.5m has been given by the National Assembly for Wales for 2005/06 - 2007/08).
 - **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.**
 - **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.**

Expansion in University Places

107. Northern Ireland currently has caps on the expansion of numbers of students in higher education. Although there are financial constraints on total spending on higher education in England, there are no direct caps on student numbers. DEL suggests that caps are needed because the demand for HE places among NI residents has reached a high enough level, with insufficient jobs for graduates in Northern Ireland at traditional graduate salaries. It concedes that there is excess demand for places in that 22% of applicants were not accepted into a university place and that 4,000 Northern Ireland students study in GB, but concludes that the case for further increases in university places is "not overwhelming".
108. The sub-group does not accept the arguments for caps on student numbers. Instead, it takes a longer-term perspective based on the economic development needs of Northern Ireland. It notes that most advanced economies have a strong local presence in HE. Major clusters of high technology industry are also usually associated with large world class universities as in Silicon Valley, Boston Massachusetts and Cambridge in England.
109. Northern Ireland has less university provision than meets local demand for HE places. As a result it has a net export of students, unlike Scotland which has a surplus of places and a net import of students. Figures show that most Northern Ireland students who study in GB do not return to Northern Ireland for work while the great majority of those studying in Northern

Ireland also obtain employment here. While it may be true that some of the latter obtain jobs in call centres and other places of work at relatively low salaries, this should be regarded as a temporary situation and one that reflects a desire to remain in Northern Ireland. Nor should Northern Ireland residents be regarded as the sole market for students in HE institutions. More effort should be made to attract students from GB and elsewhere, and this should become easier now that air travel is cheap and as Northern Ireland's reputation as a peaceful destination spreads.

110. **Further expansion of student places should take place in the view of the sub-group. This could take place at the existing institutions. Both QUB and UU have expanded rapidly in recent years and could continue to do so. While there may be some economies of scale in continuing to expand at QUB and UU, the sub-group takes the view that there may be merit in exploring the case for a third major university within Northern Ireland, possibly with a particular specialism. This could help to make a statement about Northern Ireland's determination to establish itself in the forefront of HE provision within the UK.**
111. However expansion is achieved, no-one should doubt the value of top-class universities. The sub-group notes that University league tables are now widely used and great prestige accrues to areas with the best universities. The value of Northern Ireland's school system is widely recognised and, in the view of the sub-group, this should be further augmented at tertiary level. Based on figures provided by DEL, the cost of a new institution providing an extra 3-4,000 places would be around £25 million per annum.

Tourism

112. As an area of mountain, coast and rural beauty Northern Ireland's tourist industry should be as well developed as those of the Republic of Ireland or Scotland. Before the civil unrest of 1968 and the following decades, Northern Ireland's visitor numbers were proportionately higher than those of the Republic. Much of this was in traditional coastal resort tourism, with visitors from Scotland and elsewhere, that would have declined as holiday tastes changed over the years. The development of a vibrant modern tourism industry was prevented by civil unrest and political instability.
113. The number of visitors has been rising steadily but should be two or three times higher than the current level. The legacy of under-development in the industry means that accommodation and tourist facilities remain inadequate. Despite a good record of hotel building for the business market, especially in Belfast, hotel provision in rural areas and coastal resorts is under-developed. Visitor attractions are also not sufficient for modern needs. A number of high profile projects that could boost Northern Ireland's tourism portfolio are in need of public investment. These flagship projects need to be of a scale and quality that acts as a prime motivator for visitors to come to Northern Ireland and, as such, **the sub-group considers that:**
- **The reconstruction of facilities around the Giants Causeway needs to be accelerated and extended. (£38 million)**

- **The development of the Titanic Park in Belfast is an urgent priority that should help to attract the growing cruise-ship market.** (£90 million)
- **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)
- **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.**
- The potential exists for a step change in raising the number of holiday visitors to Northern Ireland. Under these conditions, **the sub-group recommends 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.**
- **Further investment in tourism infrastructure needs to be encouraged.**

Other Proposals

114. There are other aspects of the economic package that the sub-group wishes to address. The proposals listed below represent a range of measures across several important dimensions of public policy. They reflect the weight of evidence received and evaluation undertaken by the sub-group and, though diverse in coverage, they signal intent to make timely progress in re-balancing our economy. These proposals do not cover skills and education measures. The latter will be the subject of further evidence, research and evaluation by the sub-group and will be dealt with in the sub-group's next report.
115. The sub group recommends:
- **That the proceeds from the sale of underutilised public assets be retained in Northern Ireland.** These assets could realise up to £1bn and could make a major contribution towards the rebalancing of the economy.
 - **Establishment of an infrastructure fund to overcome our infrastructural deficit.** This fund, to which others could contribute, would pay for projects above and beyond those which are in progress or forthcoming.
 - **Subject to a transparent business/economic appraisal, an acceleration of the redevelopment of the Maze prison site.** To do so would make an important statement of intent that Northern Ireland is moving ahead.
 - **The creation of a Unit within Planning Service to provide more in the way of tailored guidance for businesses in making their applications and for fast-tracking the processing of the applications.**
 - **An investment programme in energy conservation measures and technologies could lead to significant savings for local businesses.** This makes sense on both economic competitiveness and environmental grounds.
 - **The extension of energy efficiency programmes and support measures to eradicate fuel poverty.**

- **The provision of state-funded free personal care** as part of an economic package would enable a devolved Executive to introduce such a policy and prepare to budget for such provision in subsequent decades, securing the welfare and dignity of older citizens essential for social cohesion.
 - **A review of special needs education provision across Northern Ireland to identify opportunities for investment in increased provision to promote greater social cohesion.**
 - **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.**
116. In policy terms, the sub-group considers that economic development should be placed higher on the order of public expenditure priorities in the context of the forthcoming Comprehensive Spending Review. Moreover, **the sub-group recommends 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.**
117. Given the range and variety of investments and other measures being proposed, the sub-group believes that the implementation of the economic package will need to be carefully co-ordinated and managed. There will also be considerations in respect of the sequencing of the various elements of the package, including the timing of the additional financial investments and the introduction of the fiscal reforms. More generally, there is a wider issue of delays and difficulties in implementing economic strategies and projects. This was highlighted by a range of witnesses and also led the sub-group, in its first report, to call for a cross-departmental implementation plan to co-ordinate the delivery of the various economic strategies and to monitor performance against rigorous completion targets. **The sub-group, therefore, recommends 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.**

List of Abbreviations

CCL	Climate Change Levy
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DRD	Department for Regional Development
DTI	Department of Trade and Industry
ERINI	Economic Research Institute of Northern Ireland
FDI	Foreign Direct Investment
FE	Further Education
GDP	Gross Domestic Product
GNP	Gross National Product
GVA	Gross Value Added
HE	Higher Education
ISNI	Investment Strategy for Northern Ireland
NITB	Northern Ireland Tourist Board
OECD	Organisation for Economic Co-operation and Development
PfG	Preparation for Government Committee
PSA	Public Service Agreement
QUB	Queen's University of Belfast
R&D	Research and Development
RPA	Review of Public Administration
SME	Small and Medium Enterprises
UU	University of Ulster

Appendix 1

Part 1: Minutes of Proceedings relating to the Report

Thursday, 7 September 2006

in Room 135, Parliament Buildings at 10.00am.

In the Chair: Jim Wells

Present: Dr Esmond Birnie
John Dallat
George Ennis
David Ford
Lord Morrow
Barry McElduff
David McNarry
Sean Neeson
Margaret Ritchie

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Clerk)
Colin Jones (Assistant Clerk)
Trevor Allen (Clerical Supervisor)

The meeting commenced at 11.07am in closed session.

1. **Apologies**

Mitchel McLaughlin.

Michelle Gildernew MP (Mr McElduff attended the meeting as Sinn Fein representative in place of Ms Gildernew).

Dr. Alasdair McDonnell MP (Mr Dallat attended the meeting as SDLP representative in place of Dr McDonnell).

Peter Weir (Lord Morrow attended the meeting as DUP representative in place of Mr Weir).

Ian Paisley Jnr (Mr Ennis attended the meeting as DUP representative in place of Mr Paisley Jnr).

2. **Draft Minutes of Meeting on 5 September 2006**

These were agreed for publication on the Assembly's website.

3. **Matters Arising**

Members noted the submissions received from Maria Eagle MP and the Northern Ireland Youth Forum.

4. Motion Tabled on 4 September 2006

Members discussed the motion, tabled on 4 September 2006, that the Assembly approves the first report from the Committee on the Preparation for Government on the Economic Challenges Facing Northern Ireland.

Members were advised that it was envisaged that the motion would be debated on 11th and 12th September 2006.

5. Proposed Work Plan

Members discussed and agreed the proposed work plan for the future work of the sub-group.

The proposed list of witnesses to be called to give evidence was discussed and Members were asked to forward proposals for additional witnesses to the Clerk.

Members also agreed to forward party submissions on the sub-group's revised terms of reference to the Clerk before 19 September.

6. Appointment of Economists

Members noted the situation regarding the appointment of two economists to assist with the continuing work of the sub-group and agreed the terms of reference for their appointment.

Sean Neeson joined the meeting at 12.03pm

7. Any Other Business

No other items of business were raised.

8. Next Meeting

The next meeting of the sub-group was arranged for Thursday 14 September 2006 at 10.00am and will include evidence sessions in relation to the economic package/peace dividend.

The meeting adjourned at 12.10pm.

Thursday, 14 September 2006

in Room 135, Parliament Buildings at 10.00am.

In the Chair: Jim Wells

Present: Dr Esmond Birnie
John Dallat
David Ford
Michelle Gildernew MP
Kieran McCarthy
David McNarry
Lord Morrow
Edwin Poots
Margaret Ritchie
Kathy Stanton

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Clerk)
Roisin Donnelly (Assistant Clerk)
Trevor Allen (Clerical Supervisor)
Paul Stitt (Clerical Supervisor)

The meeting commenced at 10.13am in closed session.

1. **Apologies**

Alasdair McDonnell MP (Mr Dallat attended the meeting as SDLP representative in place of Dr McDonnell).

Mitchel McLaughlin (Ms Stanton attended the meeting as SF representative in place of Mr McLaughlin).

Sean Neeson (Mr McCarthy attended the meeting as Alliance representative in place of Mr Neeson).

Ian Paisley Jnr (Lord Morrow attended the meeting as DUP representative in place of Mr Paisley Jnr).

Peter Weir (Mr Poots attended the meeting as DUP representative in place of Mr Weir).

2. **Draft Minutes of Meeting on 7 September 2006**

These were agreed for publication on the Assembly's website.

3. Matters Arising

Appointment of Economists

After reviewing the tender document and joint tender response from Mike Smyth and Graham Gudgin, David McNarry proposed that the sub-group approve the appointment of the two economists under the terms outlined in the tender document. The proposal was seconded by Margaret Ritchie and agreed by the sub-group.

Mike Smyth was invited to join the meeting and was advised by the Chairperson of the role of the economic advisors and the key outputs expected from them.

Debate on Sub-group's First Report

The Clerk summarised the main themes from the debate on the sub-group's first report to the Committee on the Preparation for Government, which took place on 11 and 12 September.

The Chairperson reminded Members that responses to the report would in the first instance go to the Committee on the Preparation for Government and that the primary purpose of the sub-group is set out in its new terms of reference.

David McNarry proposed that a request should be made to the Committee on the Preparation for Government to urge the Secretary of State and his ministers to respond promptly to the First Report and to ask for a written response to the report and its recommendations, before the Minister, Maria Eagle, MP, is next due to appear before the sub-group in respect of its new terms of reference. The proposal was agreed by the sub-group.

4. Members' briefing on evidence sessions

The format of the evidence sessions and proposed line of questioning was agreed by the Members.

5. Evidence Sessions

The meeting continued in open session at 10.35am.

The sub-group took evidence from David Dobbin, Michael Maguire, Mark Sweeney and John Compton of the Northern Ireland Business Alliance.

Mr McCarthy joined the meeting at 11.00am.

David McNarry left the meeting at 11.33am.

David McNarry joined the meeting at 11.42am.

The sub-group took evidence from Victor Hewitt of the Economic Research Institute of Northern Ireland.

Lord Morrow joined the meeting at 11.47am.

Mr Poots joined the meeting at 11.50am.

Mr Dallat left the meeting at 11.55am.

Ms Ritchie left the meeting at 12.08pm.

Mr Dallat joined the meeting at 12.10pm.

Lord Morrow left the meeting at 12.22pm.

The meeting was suspended at 12.27pm.

The meeting continued in open session at 2.04pm.

Mrs Naomi Long took the chair at 2.04pm.

Mr McCarthy joined the meeting at 2.07pm.

The sub-group took evidence from Sir George Quigley and Tony Hopkins of the Industrial Task Force.

Mr McNarry left the meeting at 2.55pm.

Mr McCarthy left the meeting at 3.00pm.

Mr Poots left the meeting at 3.00pm.

The meeting was suspended at 3.00pm.

The meeting continued in open session at 3.14pm.

The sub-group took evidence from Liam Nellis and Aidan Gough of InterTradeIreland.

Mr Poots joined the meeting at 3.30pm.

Lord Morrow left the meeting at 3.31pm.

The sub-group took evidence from David Ferguson, Tom Clarke and Pat McBride of The Planning Service.

The meeting continued in closed session at 4.30pm.

6. Sub-group's Work Plan

Members discussed and agreed the proposed sub-group workplan.

7. Any Other Business

Mr Ford requested clarification on the distribution procedure for press releases from the Committee on the Preparation for Government.

The Chairperson proposed that the consideration of the evidence from the witness sessions be postponed to the next meeting of the sub-group. Members agreed to the postponement.

It was proposed that the quorum of the sub-group be reduced to 5 with one representative from each party having to be present. It was agreed that the proposal be raised with the Preparation for Government Committee.

Mr McNarry proposed that:

“the sub-group requests that the Secretary of State should provide a full report and details of the government’s work on North/South economic collaboration through the British Irish Intergovernmental Conference.”

This was agreed on a 3 to 2 majority.

Members raised the issue of the convening of a working group on industrial de-rating and Dr Birnie proposed that David Hanson MP should be contacted seeking clarification on the issue. Members agreed to the proposal.

8. Next Meeting

The next meeting of the sub-group was arranged for Thursday 21 September 2006 at 10.00am. Members will be asked to present party views on the economic package and the economic advisers will facilitate a focus group session on the package.

The meeting adjourned at 4.49pm.

Thursday, 21 September 2006

in Room 135, Parliament Buildings at 10.00am.

In the Chair: David McClarty

Present: Roy Beggs Jnr
Dr Esmond Birnie
Wilson Clyde
John Dallat
David Ford
Michelle Gildernew MP
Fra McCann
Kieran McCarthy
David McNarry
Ian Paisley Jnr
Margaret Ritchie
Kathy Stanton
Peter Weir

In Attendance: Shane McAteer (Clerk)
Colin Jones (Assistant Clerk)
Trevor Allen (Clerical Supervisor)
Michael Smyth (Economic Advisor)

The meeting commenced at 10.05am in closed session.

1. **Apologies**

Dr. Alasdair McDonnell MP (Mr Dallat attended the meeting as SDLP representative in place of Dr McDonnell).

Sean Neeson (Mr McCarthy attended the meeting as Alliance representative in place of Mr Neeson).

2. **Draft Minutes of Meeting on 14 September 2006**

These were agreed for publication on the Assembly's website.

3. **Matters Arising**

Members agreed that Hansard should record future meetings from the start of the open session, omitting the administrative business conducted in closed session at the start of each meeting.

It was noted that any decisions reached in this part of the meeting would be recorded as usual in the minutes of proceedings.

Members noted that the Committee on the Preparation for Government had approved the sub-group's request that the quorum should be reduced to five members, excluding the Chairperson, with the proviso that a representative from each party is present.

Ms Gildernew joined the meeting at 10.13am.

Members noted that the Committee had not yet considered the sub-group's request, urging the Secretary of State and his Ministers to respond promptly to the first report.

Members noted information on the distribution of press releases by the Assembly.

Members noted the correspondence to the Secretary of State, as agreed at the last meeting, requesting a full report on North/South economic collaboration through the British/Irish Intergovernmental Conference.

Members considered a response from David Hanson, MP on the Industrial Derating Working Group and agreed to seek further information including whether the Group's interim conclusions could be issued to the sub-group before its deadline for reporting to the Committee on the Preparation for Government.

Members considered a response from the Secretary of State in relation to the sub-group's request for DETI officials to give further evidence on the new terms of reference. It was agreed to respond, seeking further clarification and expressing the sub-group's disappointment that the Secretary of State would not grant access to DETI officials.

4. Evidence Received

Members noted further information from the Industrial Task Force and ERINI following last week's evidence sessions.

Members noted a written submission from UU Tech.

Members noted advice from Assembly Legal Services on the scope for varying corporation tax in Northern Ireland.

The meeting continued in open session at 10.30am.

5. Evidence Session

The sub-group took evidence from David Dobbin, Seamus McAleavey and Michael Maguire from the Economic Development Forum.

Mr Weir joined the meeting at 11.10am.

Ms Gildernew left the meeting at 11.20am.

Mr McCarthy joined the meeting at 11.43am.

Mr Paisley Jnr left the meeting at 11.45am.

Mr Clyde joined the meeting at 11.50am.

6. Review of Evidence by Economic Advisors

Mr Michael Smyth presented his paper reviewing the evidence to date.

The meeting was suspended at 12.15pm.

The meeting resumed at 1.20pm.

Mr Molloy and Mr McCann joined the meeting at 1.20pm.

Mr Molloy took the chair.

7. Presentations by the Political Parties on the Economic Package

Mr Ford presented a paper on behalf of the Alliance party.

Mr Weir presented a paper on behalf of the DUP.

Ms Ritchie presented a paper on behalf of the SDLP.

Dr Birnie presented a paper on behalf of the UUP.

It was noted that Sinn Féin's paper was not yet completed but would be submitted as soon as possible.

Mr McNarry joined the meeting at 2.17pm.

Mr Beggs Jnr left the meeting at 2.17pm.

Members agreed to write to DFP officials to request information on public expenditure figures for Northern Ireland for 2008/09 – 2010/11.

8. Evidence Session

The sub-group took evidence from John Simpson.

Mr Weir left the meeting at 3.30pm.

9. Focus Group session to agree Key Themes for Second Report

Mr Smyth facilitated a discussion to agree the key themes for inclusion in the sub-group's second report on how an economic package/peace dividend could contribute to economic regeneration.

Mr McNarry left the meeting at 4.32pm.

10. **Any Other Business**

Members noted that a draft report would be issued for consideration at the next meeting. It was also noted that amendments to papers submitted by the political parties would need to be submitted by Monday 25 September for inclusion in the draft report.

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

The next meeting of the sub-group was arranged for Thursday 28 September 2006 at 10.00am.

The meeting adjourned at 4.40pm.

Monday, 2 October 2006

in Room 135, Parliament Buildings at 2.00pm.

In the Chair: Alban Maginness

Present: Dr Esmond Birnie
George Dawson
Michelle Gildernew MP
Dr Alasdair McDonnell MP
Philip McGuigan
David McNarry
Sean Neeson
Margaret Ritchie
Mark Robinson

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Clerk)
Colin Jones (Assistant Clerk)
Trevor Allen (Clerical Supervisor)
Graham Gudgin (Economic Advisor)
Michael Smyth (Economic Advisor)

The meeting commenced at 2.10pm in closed session.

1. **Apologies**

Mitchel McLaughlin (Mr McGuigan attended the meeting as Sinn Fein representative in place of Mr McLaughlin).

Ian Paisley Jnr (Mr Dawson attended the meeting as DUP representative in place of Mr Paisley Jnr).

Peter Weir (Mr Robinson attended the meeting as DUP representative in place of Mr Weir).

2. **Draft Minutes of Meeting on 21 September 2006**

These were agreed for publication on the Assembly's website.

3. **Matters Arising**

Members noted the Sinn Fein submission on the economic package, which has been included in the draft report.

Members noted the paper on the recent Azores judgement, which had been requested at the last meeting. It was noted that DETI officials had been asked to provide advice on the judgement.

Members noted the request for further information on the outcomes from the Industrial Derating Group.

Members noted the request to DFP for estimated public expenditure figures.

4. Revised Workplan

Members agreed that, due to the forthcoming political negotiations, the meeting scheduled for Thursday 12th October should be cancelled.

Members noted that DETI officials were co-ordinating an urgent cross-departmental response to the sub-group's first report and that this would be sent to the Committee on the Preparation for Government.

Members noted that Maria Eagle, MP was not available to meet with the sub-group on 5th October as requested and had been offered several alternative dates. Members agreed that the meeting on the 5th October should be rearranged. Members also noted the deadline for the sub-group's second report of 4th October and that it would fall to the Committee on the Preparation for Government to decide whether the report should be debated in plenary.

Members noted the response to the Secretary of State in relation to further evidence from DETI officials. It was noted that further information had been received from DETI and included in the sub-group's second report. However, up-to-date information had been requested on the costs of reducing corporation tax, on the costs and benefits of a range of fiscal incentives and on the practical implications of the recent EC Azores judgement.

Members noted that the Secretary of State's decision in relation to the independent study to be commissioned by DETI meant that the sub-group could no longer comply with its current terms of reference. A revised terms of reference was agreed for issue to the Committee on the Preparation for Government.

In addition to the cancellation of the meeting on 12th October, members agreed to reschedule the meeting planned for Thursday 5th October, due to the Minister's unavailability. It was agreed to meet instead on Monday 9th and 16th October to take evidence and also on Thursday 19th October to consider the sub-group's third report.

5. Consideration of Draft Report

Members agreed that the minutes of today's meeting should be included in the draft report as unapproved minutes.

Members considered and agreed the draft report as follows:

Title Page

Agreed.

Sub-group Terms of Reference and Membership

Agreed subject to minor amendment.

List of Contents

Agreed subject to minor amendment.

Members agreed to leave their consideration of the Executive Summary and Recommendations until the end.

Introduction

Background to the Report

Paragraphs 1 – 2 were agreed.

Scope and Constraints

Paragraphs 3 – 7 were agreed.

Paragraph 8 – it was agreed that this would have an impact on Recommendation 4, which would need to be considered.

Paragraph 9 – it was agreed to revisit this paragraph to consider whether it was necessary to separately list interim recommendations.

Paragraph 10 – was agreed.

The Sub-group's Approach

Paragraphs 11 – 16 were agreed.

Paragraph 17

It was proposed by Mr McNarry and seconded by Mr Neeson that:

The sentence, 'Following consideration, the report may be published by the Committee on the Preparation for Government,' should be amended to read 'Following consideration, the report should be published by the Committee on the Preparation for Government.'

Ayes: Alliance, DUP, SDLP, and UUP.

Noes: None.

The motion was carried.

A Case for an Economic Package

Paragraph 18

Members debated whether 'political instability' should be added to the references contained in the paragraph to the effects of 'civil unrest.' Members agreed to return to this at a later stage.

Paragraphs 19 – 26 were agreed.

Paragraph 27

Members debated whether ‘political instability’ should be added to the references contained in the paragraph to the effects of ‘civil unrest.’ Members agreed to return to this at a later stage.

Paragraphs 28 – 29 were agreed.

Paragraph 30 was agreed.

Paragraphs 31 – 40 were agreed.

Conclusion

Paragraphs 41 – 43 were agreed.

Review of the Evidence

Introduction

Paragraphs 44 – 47 were agreed.

Fiscal Measures

Paragraphs 48 – 54 were agreed.

Other Elements of an Economic Package

Paragraphs 55 – 66 were agreed.

The Views of the Political Parties

Paragraphs 67 – 73 were agreed.

Summary

Paragraph 74 was agreed.

Fiscal Reform as Part of an Economic Package

Paragraphs 75 – 76 were agreed.

Corporation Tax

Paragraphs 77 – 85 were agreed.

Paragraphs 86 – 88

In relation to the conditions arising from the European Court of Justice decision in the Azores case, it was noted that Northern Ireland would have to make up any tax shortfall from a reduction in corporation tax from within its own public expenditure resources. It was noted

that further advice had been requested from DETI and that the forthcoming ERINI research would include mitigating proposals as to how Northern Ireland could cope with a potential shortfall in revenue. As this information had not yet been received, Members debated the conclusions contained in Paragraph 88 in relation to Corporation Tax.

No agreement was reached.

6. Any Other Business

None.

7. Date, Time and Place of Next Meeting

The next meeting of the sub-group was arranged for Tuesday, 3 October 2006 at 2.00pm in Room 135 to continue consideration of the draft report.

The meeting adjourned at 4.32pm.

Tuesday, 3 October 2006

in Room 135, Parliament Buildings at 2.00pm.

Unapproved draft

In the Chair: Alban Maginness

Present: Dr Esmond Birnie
George Dawson
Michelle Gildernew MP
William Hay
Mitchel McLaughlin
David McNarry
Sean Neeson
Margaret Ritchie

In Attendance: Alan Patterson (Principal Clerk)
Shane McAteer (Clerk)
Colin Jones (Assistant Clerk)
Trevor Allen (Clerical Supervisor)
David Douglas (Clerical Officer)
Michael Smyth (Economic Advisor)

The meeting commenced at 2.12pm in closed session.

1. Apologies

Ian Paisley Jnr (Mr Dawson attended the meeting as DUP representative in place of Mr Paisley Jnr).

Peter Weir (Mr Hay attended the meeting as DUP representative in place of Mr Weir).

2. Draft Minutes of Meeting on 2 October 2006

These were agreed for publication on the Assembly's website.

It was agreed that today's minutes of proceedings would be included in the draft report as unapproved minutes.

3. Matters Arising

None.

4. Consideration of Draft Report

Members considered and agreed the draft report as follows:

Paragraph 18

Agreed subject to the term “civil unrest” being amended to read “civil unrest/political instability”

Paragraph 20

Agreed subject to the fourth sentence being amended to read:

“The structure of the Northern Ireland economy is characterised by a strong demand for relatively lower paid jobs. This has a consequence of introducing large numbers of migrant workers to the economy. These migrant workers make an important contribution to the economy.”

Paragraph 27

Agreed subject to the term “civil unrest” being amended to read “civil unrest/political instability”

Paragraph 30

Agreed subject to the words “(see also paragraph 32)” being inserted after the words “The sub-group considers it significant to reflect that it was low corporation tax”.

Paragraph 36

Agreed subject to the words “The sub-group believes” being replaced with the words “There is evidence to suggest”.

Paragraph 37

Agreed subject to the second sentence being amended to read:

“The sub-group’s recommendations at paragraphs 98 -117 aim at a major increase of inward investment into Northern Ireland, and the sub-group agrees that much if not most of this would go to rural areas and towns outside Belfast and that investment would need to be policy driven.”

Paragraph 38

Agreed subject to the third sentence being deleted and the word “however” being deleted from the next sentence.

Paragraph 88

It was agreed that the paragraph be replaced with the following paragraphs, and that the numbering of all subsequent paragraphs be amended accordingly:

“88. The case for a corporation tax reduction to make Northern Ireland competitive with the Republic of Ireland has hitherto implicitly assumed that this would be achieved through a differential tax rate of, say, not more than 12.5%. An alternative mechanism that achieves an effective 12.5% rate is through the use of corporation tax allowances. To illustrate, if the first 60% of corporate profits is taxed at zero and if the remaining 40% of profits is taxed at 30%, this gives an average rate of approximately 12%.”

“89. The operation of a lower corporation tax regime would give rise to a shortfall in tax revenues of between £400m and £500m per annum. This shortfall will decline over time as corporation tax revenues pick up from an expanded private sector resulting from increased FDI. The shortfall needs to be covered in order to obviate the necessity for budget reductions. There are several ways in which this shortfall could be mitigated:

- Northern Ireland’s annual public expenditure underspend is running at around £400m.
- Under the Reinvestment and Reform Initiative (RRI), Northern Ireland plans to borrow up to £300m per annum from HM Treasury. This borrowing could be redirected to cover much of the tax revenue shortfall.
- Northern Ireland currently spends around £100m per annum on selective financial assistance to business. There would be less need for such financial support under a lower corporation tax regime.
- Northern Ireland has one of the highest personal savings ratios in the United Kingdom. A new Development Bond aimed at local savers could attract upwards of £150m per annum (the equivalent of £100 per head of population).”

“90. The sub-group agrees that, based on the evidence to-date and despite the uncertainties outlined above, there is a growing case for Northern Ireland having a competitive rate of corporation tax. However, further consideration of the case will be required in light of the findings from the ongoing ERINI research and of the identification of solutions to the practical and policy issues involved in setting up a differential corporation tax regime for Northern Ireland. In the interim, **The sub-group recommends 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 this issue as part of an economic package.**”

Paragraphs 89 – 91 were agreed.

Paragraph 92

Agreed subject to the first sentence being replaced with the following:

“The sub-group takes the view that fuel duties in Northern Ireland should be equivalent with the lower duties in the Republic of Ireland.”

Paragraphs 93 – 94 were agreed.

Paragraph 95

Agreed subject to the last sentence being amended to read:

“The sub-group recommends that a study be undertaken of the impact of those Enterprise Zones with an assessment of the potential for using Enterprise Zone incentives to aid regeneration in Belfast and other cities and towns throughout Northern Ireland”

Paragraph 96 was agreed.

Paragraph 97

Agreed subject to the words “is rapidly becoming” being replaced with the words “has become”.

Paragraph 98

Agreed subject to the words “and these should be accelerated without delay” being inserted at the end of the paragraph.

Paragraph 99

Agreed subject to the following bullet points being inserted:

- 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.
- and to the term ‘Derry’ being replaced with ‘Derry/Londonderry’.

Paragraph 100 was agreed.

Paragraph 101

Agreed subject to the following bullet point being inserted:

- The development of a railway spur connecting Belfast International Airport to the existing network.

and to the term ‘Derry’ being replaced with ‘Derry/Londonderry’.

Paragraphs 102 – 104 were agreed.

Paragraphs 105 – 107 were agreed.

Paragraph 108

Agreed subject to amendments to read:

“Further expansion of student places should take place in the view of the sub-group. This could take place at the existing institutions. Both QUB and UU have expanded rapidly in recent years and could continue to do so. While there may be some economies of scale in continuing to expand at QUB and UU, the sub-group takes the view that there may be merit in exploring the case for a third major university within Northern

Ireland, possibly with a particular specialism. This could help to make a statement about Northern Ireland's determination to establish itself in the forefront of HE provision within the UK."

Paragraph 109 was agreed.

Paragraph 110

Agreed subject to the final sentence being amended to read:

"The development of a vibrant modern tourism industry was prevented by civil unrest and political instability."

Paragraph 111

Agreed subject to the fifth bullet point being amended to read:

"The potential exists for a step change in raising the number of holiday visitors to Northern Ireland. Under these conditions, the sub-group recommends 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."

And that the following bullet point be added:

- Further investment in tourism infrastructure needs to be encouraged.

Paragraph 112 was agreed.

Paragraph 113

Agreed subject to the third bullet point being replaced with the following:

"Subject to a transparent business/economic appraisal, an acceleration of the redevelopment of the Maze prison site. To do so would make an important statement of intent that Northern Ireland is moving ahead."

Also that the following bullet points be added:

- A review of special needs education provision across Northern Ireland to identify opportunities for investment in increased provision to promote greater social cohesion.
- 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.

Paragraphs 114 – 115 were agreed.

Recommendations

Agreed subject to amendments to recommendations agreed in the main body of the report being reflected in this section.

Executive Summary

Agreed.

It was agreed that the report, as amended, be the second report of the sub-group to the Committee on the Preparation for Government. Members noted that the report, as amended, would be issued to the Committee by tomorrow (4th October) as agreed.

The report, as amended, would also be issued to the chairpersons and members of the sub-group.

5. Any Other Business

None.

6. Date, Time and Place of Next Meeting

The next meeting of the sub-group was arranged for Monday, 9 October 2006 in Room 135.

The meeting adjourned at 4.35pm.

(Note: agreed Minutes are published on the Assembly website

http://www.niassembly.gov.uk/theassembly/economy_subgroup/economy_homepage.htm)

Appendix 1

Part 2: Correspondence on Procedural and Other Matters

Correspondence with Committee on Preparation for Government Regarding Quorum Issues

From Alan Patterson
Principal Clerk
Sub-group on the Economic Challenges facing Northern Ireland

Date 14 September 2006

To Nuala Dunwoody
Clerk Assistant
Committee on the Preparation for Government

Sub-group on the Economic Challenges facing Northern Ireland – Quorum and Responses to First Report on Economic Challenges

At today's meeting of the sub-group a unanimous decision was taken to seek PfG approval to change the quorum requirements for the sub-group from 7, excluding the chairperson, to 5 with the proviso that a representative from each party is present.

The sub-group has agreed to meet one day a week to accommodate the pressures on Members time to attend plenary and PfG meetings and to maintain an effective service to their constituencies etc. The sub-group lost its quorum on two occasions today for short periods during evidence. The sub-group needs to meet all day on a Thursday to deliver on its terms of reference and to submit 2 further reports to PfG by 4 and 23 October 2006. A reduction in the quorum as proposed would facilitate the work of the sub-group and would ensure that no party could be excluded from discussions.

The sub-group also agreed today to request that PfG should urge the Secretary of State and his ministers to respond promptly to the First Report. The sub-group would wish to see a written response from Ministers on the report's recommendations before inviting Maria Eagle MP to attend a further evidence session in respect of its new terms of reference. It is anticipated that the sub-group will wish to hear from the Minister by late September/early October.

Alan Patterson
Ext 21785



Room 28
Parliament Buildings
Belfast
BT4 3XX

Mr Simon Marsh
Private Secretary
to the Secretary of State
Stormont Castle
Belfast
BT 4 3TT

20 September 2006

Dear

Sub-Group on the Economic Challenges facing Northern Ireland

As you may know, the Committee on the Preparation for Government set new terms of reference for the sub-group at the beginning of September and the sub-group is continuing its work on these issues.

In July, the Committee set the quorum for the sub-group at seven members. The sub-group has now advised the Committee that it has had difficulty in meeting from time to time, as the quorum has been lost. It has therefore asked the Committee to lower the quorum to five members, with the proviso that one member from each of the five parties must be present. The Committee has agreed to the request, as this will facilitate the work of the sub-group.

This change, however, does not meet the requirement in the direction from the Secretary of State on 11 July 2006, which stated that 'A sub-group may meet whether or not all party representatives are present'. Given this, I should be grateful if you would let me know if the Secretary of State is content with the decision that the Committee has taken in relation to the quorum for the sub-group.

Yours sincerely

Nuala Dunwoody
Clerk to the Committee on the Preparation for Government

From: Nuala Dunwoody
Clerk Assistant
Committee on the Preparation for Government

Date: 19 September 2006

To: Alan Patterson
Principal Clerk
Sub-group on the Economic Challenges facing Northern Ireland

Quorum for the Sub-group on Economic Challenges

At its meeting on 18 September 2006 the Preparation for Government Committee considered the letter of 14 September 2006 from the sub-group in which it sought approval to change the quorum requirements for the sub-group from 7, excluding the Chairperson, to 5 with the proviso that a representative from each party is present.

The PfG Committee discussed the matter and acceded to this request.



Nuala Dunwoody
Clerk Assistant

Letter to Secretary of State Regarding North/South Economic Collaboration

Parliament Buildings
BELFAST
BT4 3XX

Date: 18 September 2006

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

Sub-group on the Economic Challenges facing Northern Ireland

Dear Secretary of State,

I am writing on behalf of the Committee on the Preparation for Government sub-group on the economic challenges facing Northern Ireland. The sub-group, at its meeting on Thursday 14 September 2006, passed a motion that it:

“Request that the Secretary of State should provide a full report and details of the government’s work on North/South economic collaboration through the British Irish Intergovernmental Conference.”

(The motion was proposed by David McNarry MLA and was agreed on a 3 to 2 majority).

I should be grateful for an early response to this request as the information is relevant to the urgent work on which this sub-group is engaged.

I would be grateful if your reply could be sent care of the Clerk of the sub-group, Mr Shane McAteer, Room 428, Parliament Buildings (shane.mcateer@niassembly.gov.uk).

Yours sincerely

Mrs Naomi Long MLA
Chairperson

Correspondence with David Hanson MP Regarding Industrial De-rating Working Group

Parliament Buildings
BELFAST
BT4 3XX

Date: 15 September 2006

David Hanson MP
Stormont Castle
Stormont Estate
Belfast
BT4 3TT

Sub-Group on the Economic Challenges facing Northern Ireland

Dear Mr Hanson

On 16 August 2006 Mr Jim Wells MLA, in his role as Chairperson to the Preparation for Government sub-group on the economic challenges facing Northern Ireland, wrote to you regarding the plans to convene a working group on industrial de-rating. The letter was acknowledged by the NIO Central Private Office on 21 August 2006.

The sub-group agreed at its meeting on 14 September 2006, which I chaired, that I should follow up on this matter. Members would be grateful for a prompt response to the letter of 16 August as the information requested is relevant to the urgent work in which this sub-group is engaged.

I would be grateful if your reply could be sent care of the Principal Clerk of the Sub-group, Mr Alan Patterson, Room 414, Parliament Buildings (alan.patterson@niassembly.gov.uk).

Yours sincerely

Mrs Naomi Long MLA
Chairperson

Parliament Buildings
BELFAST
BT4 3XX

Date: 16 August 2006

David Hanson MP
Stormont Castle
Stormont Estate
Belfast
BT4 3TT

Sub-Group on the Economic Challenges facing Northern Ireland

Dear Mr Hanson

I am writing with reference to a letter I received, dated 7 August, from the Secretary of State for Northern Ireland in my role as Chairperson of the Preparation for Government Committee Sub-group on the economic challenges facing Northern Ireland.

This letter, which was presented to the sub-group at its meeting on 15 August refers to a working group on industrial de-rating which you will shortly be convening. The sub-group noted the Secretary of State's undertaking to provide information on the membership, terms of reference and the arrangements for the working group and have asked me to write to you to request this.

Members would be grateful to have sight of this information as soon as possible, particularly given the common issues under consideration by both this sub-group and the forthcoming working group on industrial de-rating.

I would be grateful if your reply could be sent care of the Principal Clerk of the Sub-group, Mr Alan Patterson, Room 414, Parliament Buildings (alan.patterson@niassembly.gov.uk).

Yours sincerely

Mr Jim Wells MLA
Chairperson

Parliament Buildings
BELFAST
BT4 3XX

Date: 22 September 2006

David Hanson MP
C/o OFMDFM Private Office
Room A5.03
Castle Buildings
Stormont Estate
Belfast
BT4 33SR

Sub-Group on the Economic Challenges facing Northern Ireland

Dear Mr Hanson

Thank you for your response of 18 September 2006 (COR 218/2006) containing information on the arrangements for the Industrial Derating Working Group.

Your correspondence was considered by the sub-group at its meeting on 21 September 2006. Members agreed that I should seek more information on the frequency of meetings planned for the Group. You may also be aware that the sub-group must make its final report to the Committee on the Preparation for Government by Monday 23 October. The potential phasing out of industrial derating is an important issue for the sub-group and Members would therefore be grateful if the interim conclusions from your Working Group could be made available to us in time for our meeting on Thursday 12 October 2006 to inform the consideration of our draft report.

I would be grateful if your reply could be sent care of the Principal Clerk of the Sub-group, Mr Alan Patterson, Room 414, Parliament Buildings or e-mailed to (alan.patterson@niassembly.gov.uk).

Yours sincerely

Mr David McClarty MLA
Chairperson



OFMDFM Private Office
Room A5.03
Castle Buildings
Stormont Estate
Belfast
BT4 3SR
Telephone: 028 90 522581
Fax: 028 90 522508
Email: privateoffice.ofmdfm@ofmdfmi.gov.uk

Mr Jim Wells MLA
Chairperson of the Preparation for
Government Committee
Sub-Group on the Economic Challenges
Facing Northern Ireland
c/o Mr Alan Patterson
The Principal Clerk of the Sub-Group
Room 414, Parliament Buildings
Stormont
Belfast BT4 3SR

Our Ref: COR 218/2006

18 September 2006



Thank you for your letter dated 16 August 2006 in which you seek information about the arrangements for the Industrial Derating Working Group.

The group will be chaired by myself and shall comprise of representatives from the Northern Ireland Manufacturing and Focus Group (NIMFG), Amicus and Departmental officials.

Attached for your information is a copy of the terms of reference for the group.



DAVID HANSON MP
Minister of State for Northern Ireland



**DRAFT TERMS OF REFERENCE FOR THE WORKING GROUP
INCLUDING NIMFG/AMICUS
SEPTEMBER TO NOVEMBER 2006**

CONTEXT

The Policy Review on the phasing out of industrial derating will begin in April 2007. This working group has been established as a forum to consider the concerns of NIMFG and AMICUS about the impact of the policy and provides an early opportunity, as a prelude to the main review, to present evidence. The Minister will consider the evidence and report to the Secretary of State in late November.

SCOPE

- Establish the concerns of NIMFG and AMICUS in relation to the impact of the continued phasing out of industrial derating.
- Consider their evidence on the impact on business and the NI economy
- Consider the consequences of any change in policy and establish the external group's views on:
 - alternative sources of revenue or reductions in local public spending that would be necessary to make good the funding deficit (including raising the additional revenue from other ratepayers);
 - areas for corresponding spending cuts; and
 - the implications of State Aid.

Conclusions to be reached by late November

Correspondence regarding attendance of DETI officials at evidence sessions and notification from the Secretary of State that research will not be commissioned on fiscal matters

Francie Molloy, MLA
Parliament Buildings
BELFAST
BT4 3XX

Date: 11 September 2006

Stephen Quinn
Permanent Secretary
Netherleigh House
Massey Avenue
BELFAST
BT4 2JP

Dear Mr Quinn,

Evidence to Assembly Sub-group on the economic challenges facing NI

The sub-group on the economic challenges facing the Northern Ireland economy reported its findings to the Preparation for Government Committee (PfG) on 25 August 2006. The sub-group's report was approved by PfG on 4 September and a two-day Assembly plenary debate will commence at 2.00pm on 11 September 2006. A copy of the report was sent to all the witnesses who gave oral evidence on 8 September and will be placed on the Assembly web site as the debate commences. The sub-group has asked me to invite DETI to give further evidence on the sub-group's new terms of reference.

The sub-group recommended that new terms of reference should be set by PfG to allow further work to proceed on fiscal measures and to look further at the issue of education and skills as the two key foundations for future economic growth. This recommendation was accepted by PfG, which has also asked the sub-group to consider further the details of a potential economic package or peace dividend for a restored Executive. The sub-groups new terms of reference are to:

1. 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;
2. 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

3. Undertake further work on how an economic package/peace dividend could contribute to economic regeneration.

PfG has asked the sub-group to report its findings on the economic package by 4 October and on the fiscal and education/skills issues by 23 October 2006.

The sub-group would like to take further evidence from DETI to explore the Department's views on its priorities for public expenditure in support of economic growth, and to assess the view of DETI on the range of fiscal incentives for consideration that would help rebalance the economy through private sector growth particularly in high value-added industry. The sub-group also wish to hear from DETI how an economic package or peace dividend might be deployed by a restored Executive to best effect to ensure an economic transition that reflects the needs of rural and urban communities across Northern Ireland,

In particular the sub-group will wish to take advice from DETI on the projected costs in terms of revenue foregone and additional expenditure for each potential fiscal measure (i.e. reduced corporation tax to 12.5% and below, significantly increasing the level of tax credits for R&D and extending its implementation to cover training and marketing, increased business investment grants from INI, harmonisation of fuel duty with RoI and a reduction in the climate levy).

The sub-group will wish to take the views of DETI on the potential economic benefits of each fiscal measure in the medium (5 years) to long-term and the economic projections used by the Department to measure the impact on tax revenue for each measure.

The sub-group is working to very tight deadlines and would like DETI to attend its meeting on 21 September at 10.15am. The evidence session will last approximately 1 hour. The sub-group will be supported by an economist and will wish to hear detailed evidence from the Department on the priorities for public expenditure in support of economic growth and on the fiscal options that are required to rebalance the economy in the medium to long-term.

Could I ask that, if possible, the sub-group could be facilitated by either forwarding an electronic copy of the presentation to Alan or Shane prior to the meeting, or if copies could be brought to the meeting for the attention of the Subgroups' Members.

The sub-group would like your representatives to begin with a brief introduction after which the Members will question the delegation. You should note that the proceedings will be recorded and will be OPEN to the public and media.

I enclose a copy of the "Notes for the Guidance of Witnesses" and a note giving the membership and staff of the sub-group. If you have any queries regarding your appearance before the sub-group, please get in touch with Alan Patterson on 028 9052 1785 or Shane McAteer on 028 9052 1843, respectively.

Yours sincerely

Francie Molloy, MLA
Chairperson

Francie Molloy, MLA
Parliament Buildings
BELFAST
BT4 3XX

Date: 18 September 2006

Stephen Quinn
Permanent Secretary
Netherleigh House
Massey Avenue
BELFAST
BT4 2JP

Dear Mr Quinn,

Evidence to Assembly Sub-group on the economic challenges facing NI

I am writing in follow up to my letter of 11 September 2006 inviting DETI to give further evidence on the sub-group's new terms of reference.

A number of witnesses who have provided evidence to the sub-group to-date have identified a reduction in the level of corporation tax in Northern Ireland, to not higher than 12.5%, as their preferred fiscal incentive for attracting Foreign Direct Investment. In this regard, the sub-group has been made aware of a recent European Court of Justice ruling on the tax scheme in the Azores, which might have implications for efforts to secure a regional variation in the level of corporation tax in Northern Ireland.

The sub-group would welcome any additional information which DETI might have on the case for corporation tax variation and, in particular, any legal advice which it would be willing to share (for example, on any legislative amendments necessary for achieving the criteria set out in the Court of Justice ruling). This information would help inform the sub-group's forthcoming report on an economic package/peace dividend, including the fiscal incentives.

If you have any queries regarding this request or your appearance before the sub-group, please get in touch with Alan Patterson on 028 9052 1785 or Shane McAteer on 028 9052 1843, respectively.

Yours sincerely

Francie Molloy, MLA
Chairperson



Northern
Ireland
Office

Northern Ireland Office
Stormont Castle
Belfast BT4 3TT
Telephone 028 9037 8176
Facsimile 028 9037 8180
www.nio.gov.uk

Secretary of State for Northern Ireland

Jim Wells MLA
Parliament Buildings
Belfast
BT4 3XX

18 September 2006

I was pleased to hear that the Assembly Sub-group has made good progress in identifying a range of economic challenges and opportunities currently facing the Northern Ireland economy. All those involved in the preparation of the first report are to be commended for producing such a wide ranging document within the timescales available and for the constructive manner in which the work was progressed. I was particularly encouraged to note that the Sub-group was unanimous in agreeing the report and that the report enjoyed widespread acceptance in the plenary debate.

I understand that the Preparation for Government Committee has also agreed to set new Terms of Reference for the Sub-group commissioning further work and I look forward to considering the recommendations that will flow from these further phases.

I understand that the Sub-group has written to the Department of Enterprise, Trade and Investment (DETI) inviting officials to provide further evidence to the Committee on a wide range of issues related to future policies, including matters which fall outside that Department's remit. As I trust you will understand, this invitation creates a difficulty for officials as it potentially breaches the relationship between them and the Government Ministers they advise; and in effect to anticipate conclusions which only Ministers could reach. In the current context, and through the work of the Sub-





Northern
Ireland
Office

group, I am seeking the Assembly's views on how best the impediments facing the economy should be addressed in policy terms. In considering the subsequent recommendations and placing them in the context of the Comprehensive Spending Review, I will naturally seek the advice of Departmental officials, in DETI and elsewhere, and I will also consult colleagues elsewhere in Government as appropriate. By asking officials for the views of their Departments at this stage you will, perhaps unintentionally, compromise the independent advice which I and my Minister's will receive when we are making the ensuing decisions. Furthermore, in inviting DETI to address issues outside their departmental remit, you refer to excepted matters, such as Government fiscal policy which is the responsibility of Treasury.

I regret therefore that it is not possible for DETI officials to participate in the evidence session or to undertake the specific research as envisaged by the Sub-group. That said, and recognising the importance of the work in which you are engaged, I am keen that NI Departments should do all they can to facilitate the work of the Sub-group. Specifically, I have asked officials to consider the information requests you have made and to do all they can in the areas where factual information or analysis may be available.

I trust that you and your colleagues on the Sub-group recognise my dilemma and accept that I remain committed to a successful outcome to your important work, and to giving your analysis full and serious consideration.





Northern
Ireland
Office

I very much hope that it will not be long before a DETI Minister in a restored Executive will be taking these issues forward and discussing them directly with Treasury.

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

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



Parliament Buildings
BELFAST
BT4 3XX

Date: 26 September 2006

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

Dear Secretary of State,

I am writing in response to your letter to me of 18 September 2006 in relation to the sub-group's request for further evidence from DETI officials. Your letter was considered by the sub-group at its meeting on 21 September 2006. Members welcomed your positive comments in relation to the work of the sub-group.

The Members of the sub-group very much regret that DETI officials were unable to attend to give evidence. The work of the sub-group depends on the expertise and knowledge of its witnesses and Members placed considerable importance on the opportunity to question DETI officials on economic issues.

The sub-group is aware that fiscal issues are an excepted matter but hope that the Secretary of State will recognise that this area is central to its work and that he would allow departmental officials to provide detailed answers to purely factual questions on fiscal issues. In particular the sub-group would welcome detailed information or projections on the potential costs and benefits of the range of fiscal alternatives set out in the sub-group's letter of 11 September 2006 to Stephen Quinn (enclosed).

The sub-group would also welcome advice from officials on the practical implications of the recent EC judgement in the case of Portuguese Republic -v- Commission of the European Communities on the possibility of establishing a competitive rate of corporation tax for Northern Ireland.

The sub-group would welcome an early response on these matters.

Yours sincerely

Mr Jim Wells MLA
Chairperson



Warner Chilcott UK Limited

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United Kingdom

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26th September 2006

Mr Alan Patterson
Room 414, Parliament Buildings
Stormont
BELFAST
BT4 3XX

Dear Mr Patterson,

I am contacting you following receipt of copies of submissions made to the Preparation for Government Committee in respect of the economic challenges facing Northern Ireland. The material was forwarded to me by Sir George Quigley who chairs the Industrial Task Force (ITF) of which I am a member.

My professional credentials for membership of the ITF are: former Chief Executive and Executive Chairman of Galen Holdings plc, former Chairman of Warner Chilcott plc and Director (current) of Warner Chilcott Limited.

I refer you to page 96 of your recently published report which details a submission made by Mr Ivan McCabrey, Chief executive of Mivan and associates me with the views of The Milford Group and Stephen Kingon with respect to fiscal incentives that may promote foreign direct investment (FDI) in Northern Ireland.

I take this opportunity to point out that I have never at any stage been a member of The Milford Group and that I disassociate myself from their views on the benefit of selective tax credits on the attraction of FDI to Northern Ireland.

In my international experience in the pharmaceutical sector, including involvement in the selection process for offshore investment (FDI), the primary issue which dictates decision is the effective average corporate tax rate. Other factors such as availability of human capital and infrastructure tend to be of secondary importance.

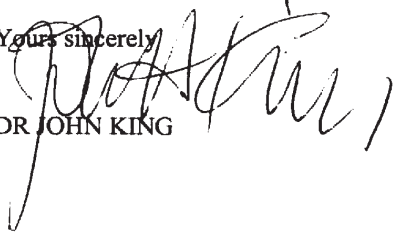
The argument that tax credits for R&D, training and marketing expenditures etc, could ever match the competitive position of a lower average corporate tax rate is, in my experience, invalid and more important of little interest to major international enterprise as it is inappropriate to the manner in which such organisations tend to be structured. I

have low expectations for the impact of such selective tax credits on the attraction of FDI to Northern Ireland. I am sure that those with direct experience in this area will accord with my views.

Please note that any views expressed in this letter are personal and do not represent Warner Chilcott in any way.

Yours sincerely

DR JOHN KING

A handwritten signature in black ink, appearing to read 'John King', written over the typed name 'DR JOHN KING'.

Correspondence on Corporation Tax and Fuel Duty Estimates

Central Finance Group SPD
Room P2 Rathgael House

Balloo Road, Bangor BT19 7NA
Tel No: 02891 858151 (68151)
Fax No: 02891 858262 (68262)
email: peter.jakobsen@dfpni.gov.uk



Department of
**Finance and
Personnel**
www.dfpni.gov.uk

FROM: Peter Jakobsen

Date: 28 September 2006

TO: Allan Patterson

Copy Distribution List Below

Corporation Tax and Fuel Duty

1. Please find attached rough estimates of the Exchequer revenue loss that would result from equality in fuel excise duty with the RoI (Annex A). Also, please find attached scenarios of estimated Exchequer revenue loss resulting from reducing the Northern Ireland corporation tax rate to 12.5%, 11% and 10% (Annex B).
2. Please note that these estimates are not official statistics in any way and should therefore be treated with extreme caution. Furthermore, please note that the tax estimates are different from the initial “back of envelope estimate” given by Michael Brennan during the Sub-Group hearing with DFP on the 8th September. As you will appreciate Mike was seeking to be helpful with the estimate he provided but had very little opportunity to consider all the information when asked. However, clearly it was much too low.
3. These estimates provided are preliminary and if any of these estimates are intended to be used for policy development purposes it is important that they are subject to further scrutiny and analysis.

Kind Regards

Peter Jakobsen

Copy Distribution List:

Bruce Robinson
Leo O'Reilly
Michael Brennan
Graeme Hutchinson, DETI

Annex A – Fuel Duty

1. The loss in Exchequer fuel excise duty resulting from a move to equivalency with the RoI has been estimated as follows:
 - The estimated total fuel excise duty raised in Northern Ireland was £425 million in 2003-04 (latest available figure).
 - Because there are different fuel duty rates for petrol and diesel respectively it was necessary to estimate an average fuel duty rate. The average fuel duty rate was derived as a weighted average using the percentage petrol (45%) and diesel (55%) deliveries to Northern Ireland as weights.
 - The average RoI fuel duty rate was calculated in a similar fashion and converted into £ per litre using the average 2005 exchange rate.
 - The unadjusted revenue loss is the loss to the exchequer assuming no change in the behaviour of NI motorists.
 - Reducing the NI fuel duty rate would be expected to result in an increase in demand for fuel in NI (because motorists would no longer travel across the border to purchase fuel). The unadjusted revenue loss estimate has therefore been adjusted to take account of this impact.
2. The revenue loss estimate is set out in the table below:

Total Fuel Excise Duty Northern Ireland 2003-04	£425 million
Weighted average UK fuel duty rate (petrol and diesel) with the proportionate share of total delivery used as weights	£0.52 per litre
Weighted average RoI fuel duty rate (petrol and diesel) with the proportionate share of total delivery used as weights – converted into £ using 2005 average exchange rate	£0.27 per litre
Total Fuel Duties @ RoI rate (£0.27/litre)	£225 million
Unadjusted Revenue Loss	£200 million
Adjusted Revenue Loss	£124 million

Annex B – Corporation Tax Scenarios

Assumptions:

1. The assumptions employed to arrive at the revenue loss estimates are:
 - Large businesses (paying 30% corporation tax) contribute 70% to the total tax take.
 - Small businesses (paying an assumed 19% corporation tax) contribute 30% to the total tax take.
2. Since the Northern Ireland economy relies more on SMEs than the UK as a whole this is consistent with the fact that in the UK large businesses contribute around 80% to the total UK tax take. Also, examining the list of 100 largest NI companies suggests that around 60% of the corporation tax revenue comes from large companies in NI. However, this list excludes profits for those firms that record all their profits in GB. Hence, the proportion of corporation tax accounted for by large firms would be expected to be above 60% but below 80% (the UK average).

Estimates:

3. The tables below sets out the estimated Exchequer revenue loss in 2003-04 (the latest available corporation tax figure) of reducing the corporation tax rate in Northern Ireland to 12.5%, 11% and 10%:

Estimated Total Corporation Tax Paid in NI 2003-04	£642 million
Supporting Calculations	
Total Profits small firms (30% share) paying 19% corporation tax rate:	£1014 million
Total Profits large firms (70% share) paying 30% corporation tax rate:	£1498 million
Total estimated profits 2003-04	£2512 million

Exchequer Revenue Loss Estimates	
Corporation Tax Take @ 12.5% rate	£314 million
Revenue Loss @ 12.5% rate	£328 million
Corporation Tax Take @ 11% rate	£276 million
Revenue Loss @ 11% rate	£366million
Corporation Tax Take @ 10% rate	£251 million
Revenue Loss @ 10% rate	£391 million

Appendix 2

Official Report of Proceedings Relating to the Report

Thursday 14 September 2006

Members:

The Chairpersons, Mr Jim Wells and Mrs Naomi Long
Dr Esmond Birnie
Mr John Dallat
Mr David Ford
Ms Michelle Gildernew
Mr Kieran McCarthy
Mr David McNarry
Lord Morrow
Mr Edwin Poots
Ms Margaret Ritchie
Ms Kathy Stanton
Mr Mike Smyth
(Economic Adviser to the Subgroup)

Witnesses:

Dr David Dobbin	}	Northern Ireland Business Alliance
Dr Michael Maguire		
Mr Mark Sweeney		
Mr John Compton		
Mr Victor Hewitt	}	Economic Research Institute of Northern Ireland
Sir George Quigley		
Mr Tony Hopkins	}	Industrial Task Force
Mr Liam Nellis		
Mr Aidan Gough	}	InterTradeIreland
Mr David Ferguson		
Mr Tom Clarke		
Mr Pat McBride		

The subgroup met at 10.14 am.

(The Chairman (Mr Wells) in the Chair.)

1. **The Chairman (Mr Wells):** We are ready to go. I remind members that the quorum is seven. Mr McLaughlin is not here: Kathy Stanton will replace him.
2. Ian Paisley Jnr cannot attend, but we hope that Peter Robinson will replace him. Although Peter Weir is not here yet — I suppose that he is still talking to ‘Good Morning Ulster’ — he has said that he will need to leave at 11.00 am. Edwin Poots will replace him. Mrs Long will be here at 2.00 pm to chair the afternoon session.

Sean Neeson has sent his apologies, and I hope that Kieran McCarthy will be here at 11.00 am to represent him. Are there any other apologies?

3. **Some Members:** No.

4. **The Chairman (Mr Wells):** I can see trouble ahead. The subgroup is going find it difficult to maintain its quorum, and I may need to talk to the Committee Clerks. Witnesses are due to attend right through to 4.00 pm, and we do not want find ourselves in the embarrassing situation of not having enough members present to continue.

10.15 am

5. **Ms Ritchie:** I have to leave at 2.00 pm.

6. **The Chairman (Mr Wells):** Can you get an SDLP body in to replace you?

7. **Mr Dallat:** Just a body?

8. **The Committee Clerk:** It does not have to be a live one.

9. **The Chairman (Mr Wells):** We have had members who have basically performed the same functions as an inflatable doll. *[Laughter.]*

10. **Ms Ritchie:** I am utterly shocked! *[Laughter.]*

11. **Ms Gildernew:** If a member has one in the boot of his or her car, please bring it in. *[Laughter.]*

12. **The Chairman (Mr Wells):** I meant to say puppet —

13. **Dr Birnie:** We know what you meant.

14. **The Chairman (Mr Wells):** — or an equivalent word. *[Laughter.]*

15. **Mr Dallat:** Stop digging.

16. **The Chairman (Mr Wells):** I may have to have a word with the Editor of Debates later. This shows you how innocent I am.

17. We will move on to something more serious. Please ensure that all mobile phones are

switched off. We will consider the draft minutes of 7 September.

18. I think that it is safe to say that myself and another DUP member have said things that we regret in the past 24 hours. *[Laughter.]*

19. **Ms Ritchie:** The minutes are in order, but can issues be raised in them that cannot be raised at a later stage? The Committee Clerks may have addressed this matter already, but I want to know whether any common themes or attitudes emerged from the debate on Monday and Tuesday that might be helpful to the subgroup's work.

20. **The Committee Clerk:** I sat through most of the debate and took notes. Members welcomed the recommendations in the report, and I noted that some general themes emerged. There was general support for the fiscal incentives, with the caveat that they need to be researched carefully to identify the best mix. The need to address the education and skills deficit came across strongly, and the need for closer alignment between the priorities of the two universities and the interests of business and industry was another theme. Finally, the potential to boost the contribution of tourism to the economy also came across. Those are the four main themes that I noted.

21. **Ms Ritchie:** We must be mindful of those issues, as they may inform future sessions of the subgroup. I thank the Committee Clerks for their observations.

22. **The Chairman (Mr Wells):** Are members content that the minutes are an accurate record of proceedings and can be published on the website?

Members indicated assent.

23. **The Chairman (Mr Wells):** The next item on the agenda is matters arising.

24. **Mr Ford:** May I digress slightly, Chairman? You mentioned publishing information on the website. Today, a journalist asked me about next Monday's public meeting between the Secretary of State and the PFG Committee. It appeared to him that although press releases are published on the Assembly website, they are not circulated. Could the Clerks take up that matter?

25. **The Committee Clerk:** That is not within our remit. Press releases are issued through Information Services.

26. **Mr Ford:** Would you ask Information Services what it is doing? It seems bizarre that press releases are being written but not distributed.

27. **The Committee Clerk:** Are you referring to PFG Committee press releases?

28. **Mr Ford:** Yes.

29. **The Committee Clerk:** You should raise that issue with PFG Committee staff. It is not our concern. I will mention it to Information Services.

30. **Mr Ford:** I assume that Information Services works for the PFG Committee and the economic subgroup.

31. **The Committee Clerk:** Press releases are issued to the list of press people.

32. **The Chairman (Mr Wells):** Perhaps the issue is that nobody publishes them?

33. **Mr Ford:** That is a separate issue. My point is that members of the press are claiming that they are not receiving press releases.

34. **The Chairman (Mr Wells):** So, members are content for the minutes and future press releases to be put on the website.

Members indicated assent.

35. We shall proceed to the appointment of the economic advisers. Responses from Mike Smyth and Graham Gudgin are in members' packs. They need no introduction to members of the subgroup. Have members had a chance to look through the responses or do they want to do so now?

36. **The Committee Clerk:** Mike Smyth and Graham Gudgin were the only respondents. I spoke to John Simpson and John Bradley at Queen's University, neither of whom, given their work commitments, was able to respond during the time frame. However, John Simpson will provide evidence to the subgroup when it meets next Thursday.

37. The question before the subgroup is whether to approve formally the appointment of the economic advisers. In anticipation of that,

Mike Smyth is waiting outside. Last week, Graham Gudgin apologised for his not being able to attend today due to other commitments.

38. **Mr McNarry:** I propose that we accept the appointment of the economic advisers.

39. **Ms Ritchie:** I second that.

40. **The Chairman (Mr Wells):** Are members content?

Members indicated assent.

41. **The Chairman (Mr Wells):** That is in line with the tender document.

42. Good morning, Mike. The subgroup has accepted the tender that you and Graham put forward. I welcome you as a joint economic adviser to the subgroup. You have advised us many times. We know, therefore, that you can hit the ground running. I believe that you have met all the subgroup's members. You met some of us at the weekend. Does any member who has not met Mr Smyth wish me to introduce them?

43. **Ms Stanton:** There is no need; we met at the weekend.

44. **The Chairman (Mr Wells):** Everyone's face should be familiar. We expect Mr Edwin Poots, Mr Peter Robinson and Mr Kieran McCarthy to join us later. Unfortunately, Graham has a prior engagement today and cannot be here.

45. I want to go over what is expected of the economic advisers. It is outlined to some extent in the tender document. Have you read the first report?

46. **Mr Michael Smyth (Economic Adviser):** Yes.

47. **The Chairman (Mr Wells):** You will, therefore, be aware that it does not make light reading. The subgroup requires that a written review of the evidence compiled in the report, and the evidence given today, be provided at the next meeting on 21 September. We will provide you with the Hansard reports, which are also available on the Assembly website. Unless we stipulate that both economic advisers must be present, we expect at least one adviser to attend every meeting.

48. **Mr Smyth:** Graham has communicated to me that he may have a problem next Thursday as well.

49. **The Chairman (Mr Wells):** We will leave it to the two of you to arrange ongoing cover. We also expect ongoing provision of advice and possible questions for potential witnesses, etc. You have done that in the past. I would prefer both advisers to attend the next meeting. However, is it correct that Mr Gudgin has a prior commitment?

50. **Mr Smyth:** He did tell me that.

51. **The Committee Clerk:** Is that for the whole day?

52. **Mr Smyth:** He did not say.

53. **The Committee Clerk:** I will have a word with him. We were hoping that the two advisers would facilitate the afternoon meeting, which will concentrate on the evidence that the political parties and others have produced to date. We also want to hear their views on the options, so that we can take a balanced approach. If Mr Gudgin is unable to attend, I am sure that we will be able to get something from him in writing.

54. **The Chairman (Mr Wells):** It would be helpful if Mr Gudgin could drop in for even part of the meeting or towards the end. It would be good to have both advisers present at some stage.

55. The subgroup is required to provide substantive written input on the first report by 25 September and on the second by 12 October. That is a tall order, but it should be of no surprise to Mr Smyth and Mr Gudgin. It does not leave us with a lot of time, considering that it is already 14 September. That input should include placing the detailed economic projections against the recommendations and conclusions, as well as researched advice on best practices in education and skills provision elsewhere.

56. This is a case of teaching granny to suck eggs, but the advisers are expected to work as a team. However, that should not be a problem, because they have worked together frequently. Their advice should be balanced, and it should

facilitate decision-making in the subgroup on issues such as the preferred fiscal measures.

57. I accept that, given the time span, it is a tall order. However, the advisers have been following the subgroup's deliberations quite closely, so much of the information will not be a surprise. The subgroup has been given the authority to continue its work, and that is why members have asked for experts. From now on, either Mr Smyth or Mr Gudgin will be well-established figures at our meetings. I hope that they enjoy their time with us and that they find it fruitful. I cannot guarantee any employment beyond 24 November.

58. **Ms Gildernew:** A bit like ourselves.

59. **The Chairman (Mr Wells):** It could be a short-term appointment, but I am glad that they were able to take up the offer so quickly.

60. The 'First Report on the Economic Challenges Facing Northern Ireland' was debated on Monday and Tuesday. The PFG Committee has ownership of it. Therefore, responsibility for following up the recommendations and receiving comments on the report falls within its bailiwick. The subgroup can make representations to that Committee, but feedback on the report will not come directly to us. However, I will ensure — as will the other Chairmen — that any comments received by the PFG Committee are relayed immediately to the subgroup. I hope that members understand that and do not hammer on the Committee Clerk's door to ask why he is not pursuing a particular matter. Do members understand the protocol?

Members indicated assent.

61. **The Committee Clerk:** The Minister has said that she will be happy to return to the subgroup, and I have been checking available dates for that meeting. I am sure that members will want to ask for her response to the report's recommendations. Members should remember that, as the timeframe is tight and the terms of reference are set, they should not use too much time going over what has already been done, as that would not give them time to complete what they are currently required to do.

10.30 am

62. **Mr McNarry:** Could we work on the basis that the Minister has already attended a meeting of the subgroup and that she has made the promises that have been mentioned? Could we also request that she reply to the first report in advance of her next meeting with the subgroup in order that we have an idea of what she thinks of it? Better that than her greeting us with the waffle and tittle-tattle that she offered in the previous meeting under the guise of being unprepared. I am not prepared to listen to a Minister go through a brief that civil servants prepared for her — and which meant very little to me — and then dodge our questions.

63. I sympathised with her for not having had time to read the report. However, it was lamentable that the Minister had not been properly briefed. She has said, and Hansard has recorded, that she would respond in writing to two questions that I asked, and she said something similar to Margaret and other members. I would like to see those answers, and I am surprised that we have not yet received them. The subgroup is owed a response that shows what the Minister makes of the report, particularly its recommendations.

64. **The Chairman (Mr Wells):** Can we ask for those responses, or would that have to be done through the PFG Committee?

65. **The Committee Clerk:** We can do two things. In making the preparations for the Minister's return, I can certainly mention to the Department of Enterprise, Trade and Investment (DETI) that it would be helpful if —

66. **Mr McNarry:** I am not asking that you "certainly mention" it. Let us get this straight: I am asking that that be done.

67. **The Committee Clerk:** I can also speak to the PFG Committee about the formalities.

68. **Mr McNarry:** I propose that we write to the PFG Committee formally. It is meeting tomorrow, is it not?

69. **The Chairman (Mr Wells):** It will be meeting tomorrow and Monday. Mr Molloy will be chairing tomorrow's meeting.

70. **Mr McNarry:** A formal request could be tabled.

71. **The Chairman (Mr Wells):** Are members content that we write to the PFG Committee and ask for it to request the Minister's responses? That is the proper protocol.

Members indicated assent.

72. **The Chairman (Mr Wells):** That is a good idea, because we need to keep the ball rolling. We cannot let a report and a meeting with the Minister just sit there. We must keep returning to the important issues in the report.

73. **Mr McNarry:** I know that jokes have been made about the deadline of 24 November, but, joking aside, the report has also gone to the Government, and we would want the Government to pursue the issues in the absence of restoration.

74. **Dr Birnie:** Chairman, I want to be clear about the procedure for questioning witnesses today. We have two different reports to produce. Do we ask questions about the full range of subjects for the two reports or simply questions that relate to the first report?

75. **The Committee Clerk:** Questions should mainly relate to the report on the economic package, but fiscal incentives are relevant to that report. However, the difficulty is that research on fiscal incentives will not have been completed in time for it to be included in the report on the economic package. Therefore we need to cover both issues, and get an up-to-date position on fiscal incentives as well.

76. **Dr Birnie:** Thank you.

77. **The Committee Clerk:** There is a list of six potential core questions on the financial package in members' packs. At the subgroup meeting of 7 September, it was agreed that such a list would be useful. It is important that the core questions are asked, and we suggest that each member ask one core question in addition to his or her own questions. At the end, the Chairman will ask those core questions that have been left unanswered.

78. The process will then start again for each new set of witnesses, with the first member to speak choosing the first core question, and so

on, until all have been asked. Not all core questions are relevant to the Planning Service.

79. **The Chairman (Mr Wells):** Are members content to go down that route?

Members indicated assent.

80. **The Chairman (Mr Wells):** Mrs Long will be chairing the meeting later, but I hope to sit at the back of the Committee room while witnesses from the Planning Service are giving evidence.

81. The witnesses from the Northern Ireland Business Alliance are currently waiting outside.

82. **Mr McNarry:** How are we going to apportion the questions? Is Michelle likely to take the first question? Is that how we plan to do it?

83. **The Committee Clerk:** The easiest way to proceed is for the member who happens to be first on the list of speakers, which the Chairperson will develop as we go along, to ask the first question, and so on. Who the first member to ask the first core question will be will vary with each new set of witnesses, and the Chairperson will ask any remaining core questions at the end.

84. **Mr McNarry:** Are questions other than the core questions allowed?

85. **The Chairman (Mr Wells):** Yes, providing they are directly relevant to the question that is being answered.

86. **Ms Gildernew:** I thought that David would understand that I would ask the questions about Fermanagh and South Tyrone and west of the Bann. *[Laughter.]*

87. **Mr McNarry:** Had Sinn Féin attended the plenary debate on Monday and Tuesday, Michelle could have been in her element. She could have had the whole Fermanagh and South Tyrone angle to herself.

88. **The Chairman (Mr Wells):** The work plan has been updated.

89. I am conscious that we have kept witnesses waiting outside. Please remember that we are required to maintain a quorum. Does anyone have to leave during this first evidence session?

90. **Mr McNarry:** I have to take a telephone call at about 11.15 am.

91. **Mr Dallat:** Not again.

92. **The Chairman (Mr Wells):** The difficulty is, David, that as soon as you walk out, we shall have to stop. Only seven members are present today.

93. **Mr McNarry:** I have to take the call.

94. **The Chairman (Mr Wells):** Is there no prospect of anyone else coming, so that we can avoid becoming inquorate?

95. **Mr Ford:** Kieran McCarthy should be here by 11.00 am; that would allow David five minutes' breathing space. I hope that he will need only five minutes; otherwise we will be back to the minimum number of members for a quorum.

96. **Mr McNarry:** We are running a bit behind schedule now. Victor Hewitt was due to come in at 11.15 am, so I assume that that will now mean 11.30 am, and my call will only take five minutes or so.

97. **The Chairman (Mr Wells):** On a broader note, if this subgroup is to continue, it needs to take evidence. Therefore, we simply must ensure that members sort out substitutes. I say that in reference to all parties, not just one. There is nothing more embarrassing than calling witnesses, who have prepared documents, only for a member to leave the room, leaving the subgroup inquorate.

98. **Mr McNarry:** That is a good point, which I accept.

99. I do not know how other members feel, but I find it pretty difficult to move immediately from one group of witnesses to another. There are times when I would like a five-minute time out to gather my thoughts.

100. **The Chairman (Mr Wells):** We have built in a little time between witnesses.

101. **Ms Gildernew:** I suggest that if witnesses intend to read through a presentation verbatim, we ask them to summarise it. At some previous evidence sessions, witnesses read through three or four pages. We can all read, so perhaps that would cut down on time.

102. **The Chairman (Mr Wells):** Witnesses hand in their documents to us anyway.

103. **Mr McNarry:** That is a good point. Will each group of witnesses be giving another 15-minute presentation?

104. **The Committee Clerk:** That is up to members.

105. **Ms Gildernew:** They may do that.

106. **The Chairman (Mr Wells):** It is to be hoped that their material will be new.

107. **Ms Gildernew:** We do not need witnesses to read out their presentations.

108. **The Committee Clerk:** Witnesses have been asked specifically to focus on the new terms of reference. They have been asked to present material that is additional to their previous evidence.

109. **The Chairman (Mr Wells):** Some of today's witnesses are big players. If the press get hold of the fact that the subgroup is constantly becoming inquorate, we shall look rather silly. It is important that we try to sort that out. Perhaps I, or the Committee Clerk, will talk to the party Whips over the next few days to try to ensure that parties take the subgroup seriously and get their representatives to attend. We are now ready for the first witnesses.

110. Welcome, gentlemen. Dr Dobbin, it is good to see you again.

111. **Dr David Dobbin (Northern Ireland Business Alliance):** It is nice to see you, Chairman.

112. **The Chairman (Mr Wells):** I met some of these folk over the weekend. Dr Dobbin is well known to you all, and with him today are Michael Maguire, Mark Sweeney and John Compton. You have been extremely helpful to us in the past.

113. You have seen the new terms of reference.

114. **Dr Dobbin:** If I may interrupt, Chairman, we are not sure of the purpose of, or the preferred outcome from, today's session. We want to ensure that our evidence, or input, contributes to the outcome that the subgroup seeks, as opposed to going down any side roads.

115. **The Chairman (Mr Wells):** The Committee Clerk will deal with that.

116. **The Committee Clerk:** I have been in discussion with all the witnesses about what they could possibly add. There is a recognition that we are going over some of the old ground. However, given that the subgroup has been given new terms of reference, you must ensure that your evidence is specific and enlarges on your previous contributions where possible.

117. One of the difficulties that the subgroup has had, and which I experienced when compiling the draft report, is that previous evidence has tended to be fairly unspecific, particularly on the economic package. Therefore, we are trying to gather evidence both from witnesses and from the political parties in a form that enables us to argue a case. Today's meeting is an opportunity to expand on previous evidence and to give more specific details.

118. **Dr Dobbin:** First, we would like to congratulate the subgroup on its work. Sick and sad person that I am, I have read almost all of the report's 1,000-odd pages. The executive summary and the main output of the subgroup's work are excellent and very encouraging, and any businessperson to whom I have spoken has said the same. The subgroup has not yet reached the end point, but we were very encouraged by the consensus that was reached and by some of the output, with which we largely agree.

119. **The Chairman (Mr Wells):** Thank you very much, Dr Dobbin. You made similar comments at Oxford University in front of some quite influential people, and those comments were much appreciated.

120. Would you like to make a short introduction? We have a series of questions for you.

121. **Dr Dobbin:** I wish to make a few points, and then we can get a dialogue going to tease out any issues that the subgroup might like to explore.

122. We need to move from a broad range of recommendations to the development of a strategic action plan, and we must ensure that there is evidence to back up any recommendations. We must be careful not to abandon or duplicate the work that has already been carried out. We have brought with us today a number of

documents that we recommend that the subgroup explore.

123. The Economic Development Forum (EDF) carried out a great deal of work and produced 'Action Plan: Working Together for a Stronger Economy', which business, trades unions and the voluntary sector endorsed. Some of the events mentioned in it are out of date, but its content is still quite relevant, particularly on some of the areas about which the subgroup has asked questions. We recommend that the subgroup, and any economic advisers that it may have, examine that action plan and identify the areas that are still relevant to today's agenda. It contains some relevant material.

124. In Southern Ireland, the Enterprise Strategy Group, under the chairmanship of Eoin O'Driscoll, produced an economic strategy report, 'Ahead of the Curve: Ireland's Place in the Global Economy'. If the subgroup has not already done so, we recommend that it look at the report from two perspectives: that Southern Ireland is a colleague and an ally; or that it is a competitor. Either way, the subgroup should understand where Southern Ireland is going and what it is doing. It contains some relevant material about what the South is doing now and what it has achieved to date, which would be useful evidence to include in any further studies or in the preparation of an action plan.

125. As regards the three areas covered in the new terms of reference, we believe that, without foreign direct investment (FDI), we shall not achieve the levels of growth that are essential to the development of a much more vibrant economy and to the creation of the necessary opportunities. We stress that the challenge is to create higher-value-added jobs, as opposed to just jobs. We are nervous about the fact that some of the jobs that are currently being created in the service sector do not mirror the value added by the jobs that they are replacing, perhaps in manufacturing and elsewhere. We must be more specific about what we want. We cannot build an economy on just retail and catering, although we welcome new jobs in those sectors, because they are, of course, better than not having any jobs at all.

We would like to focus on how we can create more value-added jobs.

126. If there is to be some form of peace dividend or financial support for a fledgling Executive, it should be directed at areas that can provide a sustainable outcome, not at measures that will be good for a short time, only for Northern Ireland to find itself back where it started. It is vital that any money or financial package be directed towards building a sustainable future.

127. Fiscal incentives have been focused on to quite an extent. A flexible fiscal policy is essential. Northern Ireland will not hit the necessary targets by pursuing principally UK policies, given that its competitor on the island has a much more attractive regime. Northern Ireland needs a tailored policy, and fiscal flexibility should play an important part — without that, it will be difficult to compete on an all-island basis.

10.45 am

128. We are not entirely in agreement about whether it would be better to have a reduction in corporation tax or to increase, or add to, the fiscal incentives.

129. The studies by Sir George Quigley's Industrial Task Force and by Prof Richard Harris — and perhaps a future study by the subgroup — should offer an evidence-based assessment to help to decide what will provide the best outcome and what will be easiest to deliver. There may have to be a compromise between what we would like and what we can get. The subgroup should adopt a pragmatic view between what might be the optimum economic outcome and what might be best in terms of delivery.

130. A formal economic strand to the talks process is essential, so that any economic deal will be enshrined in embryonic legislation. We would be worried that a handshake on tax, in particular, may not be deliverable. In an economic strand, there should be a layout of the legislative path to delivering the so-called peace dividend. Without that, the legislative process, the Treasury or other Westminster Departments could derail the consensus on how we achieve our aims.

131. We must emphasise the investment required in software — by software, we mean skills, innovation, and intellectual property — as well as in hardware, which is the infrastructure. We are pleased that one of the subgroup's new terms of reference relates to an integrated skills and education strategy, as we believe that that is crucial. Together with fiscal incentives, we need a package of three or four key activities that will make an economic difference. Skills and innovation are core areas. In the absence of a reduction in headline corporation tax, fiscal incentives to encourage innovation may do the same job.

132. I know that the subgroup has agreed its new terms of reference, and that we cannot unpick or change them, but we would like businesses to be offered an incentive to invest in the appropriate areas, which are skills and innovation, and probably marketing. One point that perhaps is missing from the subgroup's first report is an emphasis on how to encourage more exporting. I am not suggesting that the subgroup has not discussed that matter, but it should be a stronger element, and should include fiscal incentives for companies that export.

133. We would like to add three or four points not in the terms of reference that we believe may have some relevance. The subgroup's report notes the £30 million package that was announced by the then Minister responsible for the economy and finance, Ian Pearson, three years ago but, as yet, has not been implemented because of state-aid difficulties. The report states that perhaps an alternative use should be found for that money. My view will not fall under Chatham House rules, because this meeting will be recorded in Hansard, but when the business bodies negotiated with Ian Pearson when he wanted to introduce rates, it was agreed that the £30 million package would be a way in which the burden on manufacturing could be offset.

134. We told him that we had the highest energy costs in the British Isles. We also said that the relief on manufacturing rates, to some extent, offset those energy costs. Ian Pearson agreed to provide an energy-relief package, and

one, to some extent, that would offset the additional rates burden. To date, we have seen almost none of the £30 million. We would be content if that money were considered as a way of providing rate relief for the manufacturing industry, because, originally, it came in a package when we were negotiating a measure to offset the additional rates burden. We have state-aid approval for manufacturing rate relief, but we do not have state-aid approval for anything else. To give up state-aid approval would be foolhardy. Therefore, this is something that can be done immediately, because it would be a case of using the existing state-aid approval and money that would largely go to the manufacturing industry anyway.

135. Mark Sweeney will say something about that later, during the question-and-answer session. Manufacturing is still a core part of the economy and is the area that has the highest value added. We should not be bewitched by the philosophy that there is no room for manufacturing in the economy as it goes forward; we believe that there is, but that manufacturing may take a different form as regards product and the part of the supply chain to which it applies.

136. Finally, we believe that some elements must be further built on, and the report covers, to some extent, innovation and research and development (R&D). We have two universities with fantastic graduate and R&D output, and we have a good set of colleges. We want to see them posed the challenge of delivering on an economic outcome. Indeed, I have talked to representatives of both universities, and they are preparing an economic plan that addresses what they can deliver.

137. We wish to see the universities and colleges becoming more involved as stakeholders and being placed under some pressure to provide more bang for the considerable buck that is being provided to them in the shape of public money. We really want to see a price tag placed on the public money that is going into higher and further education when it comes to what it will deliver to the economy and to society. We recognise that societal issues are also involved.

138. In summary, we recommend that an evidence-based study be conducted to determine the best path to follow, and that a pragmatic view be taken as to the ease of implementation. There should be a scoring system that marks economic benefit, ease of implementation, and so on, so that one can take a balanced view on what can be done. That then should be enshrined in some form of embryonic legislation. The legislative path for delivery must be examined; otherwise one could come up with an outcome or a recommendation that cannot be implemented.

139. I shall ask Michael Maguire to provide some evidence on the integrated skills and education strategy. That will end our formal submission.

140. **Dr Michael Maguire (Northern Ireland Business Alliance):** Chairman, this is an area in which, from a strategic point of view, we do not need to reinvent the wheel. A Department for Employment and Learning (DEL) skills strategy is in place, and it was widely consulted on during its development. That sets out the platform for what we want to do. We do not need to go back and rethink what we are trying to achieve on the skills side.

141. The critical issue is implementation, and there are two points that I wish to make on that. First, the Business Alliance's submission identifies a number of areas in which the skills strategy is currently underfunded. An opportunity exists to put additional money into programmes that could be developed to deliver on some of the objectives that have been set out in that strategy.

142. Secondly, a huge amount of money is spent on the training and education infrastructure in universities and in the further education (FE) sector in Northern Ireland. There must be a much greater push to look at the responsiveness of that sector. I will give one example: in the late 1990s, the Department of Economic Development identified a number of skills priority areas for the FE sector, such as construction training, hospitality, and so on. As a member of the Economic Development Forum subgroup, I asked recently for information on the profile of training across the FE sector in Northern Ireland. From memory, only 30% of

vocational, professional and technical skills in the FE sector related to the priority areas that had been identified.

143. We have a huge infrastructure, which is, in some cases, top class. Rather than work off a blank page, we must start to push on with the objectives that we wish to see achieved. We must start to push through the delivery mechanisms that exist in the educational establishment.

144. **Dr Dobbin:** I want to add one final point, which I forgot to mention earlier. To add to what Dr Maguire has said, I believe that the business community recognises the social need issues that exist in Northern Ireland. For any economic drive to encourage growth in both the economy and in jobs, we must direct it to the areas where there is greatest need. We are not talking about just geographical need, because we could find wards in Belfast as well as in Derry, or wherever, that have some of the highest levels of deprivation in Europe. Thus far, public expenditure and, indeed, the economic growth that has been achieved are still not reaching those communities.

145. In Protestant communities, particularly around greater Belfast, the demise of the engineering industry has removed a vocational route for young people wishing to pursue careers that have been traditional in their community. Similarly, the demise of the textile industry in and around Derry has removed a route for people to enter that industry.

146. One of the key elements of the third term of reference is to find a route that allows people with even basic formal qualifications — or none at all — to end up in a worthwhile job. At present, although vocational education is widely talked about, no one has come up with an ideal pathway by which citizens, no matter how poor their starting position, can realise their potential. We are not going to address the issue of social need unless we can find a pathway for young people from deprived communities to follow. These young people have only a few low level opportunities of employment, few role models and little work ethic, because they have been cut off from opportunity for so long.

147. Vocational education is one of the key issues, balanced with what we do at the top end to ensure that we do not lose all of our best young people to employment outside Northern Ireland. There is a top-and-bottom challenge to the skills agenda. How can we get young people with no qualifications to have a worthwhile career and realise their potential while, at the top end, not lose our best young people, who are disappearing because we cannot create job opportunities for them?

148. I am not saying that those are the only two problems that we face, but if we were to deal with these problems, that would make the greatest contribution to our economy. We must keep our best assets and switch on an asset that we are not using at all.

149. **Mr McNarry:** Gentlemen, you are most welcome. It is good to see you again. Thank you for your encouraging remarks and for your recommendations, of which I have taken note, particularly what you have said about there being an economic strand to the negotiations. I am pretty sure that that there will be. You have our word that we will try to ensure that that happens.

150. I have a couple of questions. How would you prioritise the broad areas that require investment and to which a financial package might be put to best use? I say that slightly tongue in cheek. We have hedged our bets as to what the big sum of money that we want for an economic package might be. You are in the hot seat, so I expect some guidance on that. Secondly, if the Government were to agree to an economic package and to a sum of money — not on a handshake, but in writing — but said that it would have to be paid for by cuts in services, how would you respond?

151. **Dr Dobbin:** I shall answer the second question first. It is essential that the political parties set up a devolved Government in order to succeed. Members have a huge task ahead, socially and economically, and to do it without the necessary assets in place is close to being a mission impossible. The local voters would feel let down, because there would be a high expectation on the new regime to deliver.

152. There are some looming issues. The economy is in for a more difficult time than it has experienced in the past year or two. It would be very difficult for a new Executive and Assembly to come into power without there being some ring-fencing of public expenditure and some support for initiatives to create more social and economic development.

153. The Treasury will try to play a zero-sum game; it will say that it is about choices and about how we spend the money that we have got. Our argument should be that if one is going to build a new house or create a new business, one starts off by investing at the beginning and expecting a return. We need additional investment now, whether that comes in the form of infrastructure, fiscal incentives or education. That would produce a return for the economy, both locally and nationally, through a reduction in subvention and an increase in the tax take.

154. The mission is to get Northern Ireland out of its dependency culture and out of the situation in which subvention is the only way forward. That debate, Mr McNarry, will be difficult, as the Treasury has been pre-programmed to take rather than give.

11.00 am

155. As regards getting more bang for the buck, as Dr Maguire said, there are areas of waste in Northern Ireland's expenditure, and I am sure that a new regime could identify those. It will take time to review current spend, and how it could be better utilised, and it would be unfair to ask a new regime to suddenly take stock of a quite complex set of Departments and identify where savings could be made.

156. Departments will argue that, under the current spending review, the Department of Finance and Personnel (DFP) is already identifying where savings could be made. In fact, a new comprehensive spending review (CSR) is imminent. At all costs, members should avoid being sucked into a situation in which Departments are asked to make sacrifices before the Assembly has had the chance to open the books and study them. The Assembly would become a hostage to fortune.

157. **Mr McNarry:** That is very important. The subgroup has identified the need to see the books. The sequencing is the issue. It would be fine to go into an Executive — if we get that far — but getting to see the books before that point will be difficult, because the hidden agenda of the NIO and the Civil Service is to protect everything and tell us nothing.

158. **Dr Dobbin:** Therefore, you understand what I am saying: without that evidence and knowledge, how could members be expected to legitimately answer the point regarding sacrifices?

159. **Mr McNarry:** I understand.

160. **Dr Dobbin:** I would stick to the position of not going in that direction. If members open that particular box, they will be sucked into a discussion about what sacrifices can be made. That said, there are areas to which funding could be directed that would give a better outcome. That is the case in any regime, including the UK-wide regime.

161. Dr Maguire talked about further and higher education. There are other areas of Government in which we could get more bang for our buck. Under NIO rule, the public sector has been going for reform and driving for efficiency, but what savings have been made and what efficiencies have been identified? There are very few. It would be hard for a new regime to make savings early in their term. Current spend should be ring-fenced for a period, with the policy commitment that, following the honeymoon period — and having looked at the books — the new regime would initiate an efficiency drive.

162. **Mr McNarry:** Do you believe that there is a case for drawing down an additional sum for the amount that the Executive wish to spend?

163. **Dr Dobbin:** The answer is twofold. First, there is an argument for ring-fencing current spend, indeed current real levels of spend, in key areas. For example, economic development spend is under significant pressure and has been cut in real, and actual, terms over the past three or four years. If we are going to grow the economy — and we reckon that the private sector needs to be doubled, and maybe more — there must

be additional money for FDI and local business development.

164. There are initiatives that could be embarked upon, such as skills innovation and fiscal incentives, which would carry price tags. Members need to be careful about opting for measures that cannot be sustained, or those that involve only the offer of a fixed sum of money in year one. In taking that approach, members could find that they have started initiatives that are not sustainable or that they have spent money and have little to show for it.

165. If there is money to spend, put it into infrastructure. We need to avoid getting into too much hock with PPP and PFI. A significant proportion of the forward budget is already committed to the unitary repayments for PFI and PPP contracts. In education, in particular, there has been a wake-up call in that officials have realised that their future money is spoken for by unitary payments for the investments that they have already made.

166. If I had a sum of money, I would pay off my mortgage. In other words, I would pay for infrastructure items with Government money, rather than take out a mortgage through PPP/PFI. With such an approach, the Executive would be free of the debt, or future payments, that it otherwise would usually have to make. That would allow the Executive to go forward faster because it would not have the unitary repayments to service. It would be clever footwork, because the Executive would have swapped debt for a dowry. Members would have to decide to what extent they want to do that.

167. Your economic adviser is nodding. There is clever footwork to be done in not taking on debt. No one wants to start any type of venture too heavily in debt. However, the Government are cleverly opening schools, hospitals and God knows what without paying for them. Taxpayers have to pay for those projects on the never-never, and the costs are starting to rack up. Although I am on the Strategic Investment Board (SIB) and believe that there is merit in PFI and PPP, we do not want to get to the stage where the amount of unitary repayments becomes difficult. If members look at current figures, they will see that the

repayments are becoming a problem, particularly for schools and the wider education sector.

168. If the Executive were allocated the additional money, it would be difficult to avoid their being besieged by thousands of single-issue groups that want money to be spent in their communities. The lesson from the European money in the 1970s and 1980s was that the South made long-term investments, particularly in infrastructure, business development and education, and created the legacy of the tiger economy. Northern Ireland tended to spend that funding on voluntary-service activity. I am not saying that that was bad, but Northern Ireland did not create the same legacy. The EU likes to put a flag on everything and sees investments as hard assets. In order that Northern Ireland can create its own money and avoid the need for its citizens to get sucked into debt, it needs to spend money on economic enabling activities.

169. **Dr Maguire:** We talk about ring-fencing public expenditure, but it would not be right to assume from that that we are happy with the profile of that expenditure. We mentioned education and the need to put greater emphasis on reshaping and refocusing the further education sector and the universities.

170. There is an opportunity to “economics-proof” expenditure, whether it be on planning or the Environment and Heritage Service (EHS) or whatever. There needs to be an economic dimension to the spending decisions in those areas that touch upon the economy — almost all aspects of Government here.

171. The Review of Public Administration (RPA), which is looking at how money is spent on health, education and a range of other areas, is an opportunity to create such an economic dimension. To get the kind of change that is needed, an active look at reshaping expenditure in those areas, by taking it away from administration and putting it into front-line services, must be taken.

172. We are not saying that public expenditure should be ring-fenced: leave it as it is and ask for more money. We are saying that, as part of the agenda, the profile of that expenditure should be considered closely from an economic

viewpoint, and in a way that allows for meaningful decisions.

173. **Dr Dobbin:** That will take time, and members must be careful that they do not give up-front promises about sets of books that they have not studied. If they do, they will end up having to deliver savings without knowing how to do so.

174. **Mr McNarry:** We could mislead the electorate.

175. **Mr Sweeney:** I will just comment on the first question about economic priorities. FDI is a critical requirement, but it is covered very well in the first report. Exports follow FDI closely and are associated with it, but that area has not had the same emphasis. To reinforce Dr Dobbin's point, almost by definition, exports bring jobs to the sector where they have an added value, where some skills can be exported. As managing director of a company that provides almost 10% of Northern Ireland's total exports, and as president of the Northern Ireland Chamber of Commerce and Industry (NICCI), which is very focused on exports, I think that that is something that needs to be developed further.

176. Over the past year, I have chaired a NICCI forum on exports. The forum will close its report at the end of the month; perhaps we could submit it to the subgroup for its consideration. It is an extensive study of small-to-medium-sized enterprises (SMEs) and focuses on barriers to export and what Government and business organisations could do to bring greater exports to the indigenous sector, which would be a second step from bringing in FDI to raise the level of the economy.

177. My final point touches on the cost base for manufacturing businesses in Northern Ireland. Having a competitive cost base would increase the table stakes as far as being able to compete is concerned. It is often said that Northern Ireland's energy costs are the highest in the UK. My company competes not only with companies in the UK, but globally, as do many other companies. Gas prices here are higher than in the rest of the UK and mainland Europe.

178. Therefore, as regards £30 million to make that cost base more competitive, I support Dr Dobbin's point strongly. Whether the money is targeted at rates or at energy is not really that important. The cost base should be competitive in its totality. It should not be the case that one element is competitive and another is not. If that competitive cost base could be created by using £30 million to offset some of the increases in rates, as distinct from £30 million that we cannot apply to the energy situation, that would be the smart thing to do.

179. **Mr Compton:** I have one observation to make on the second part of Mr McNarry's two-part question. About a year ago, NIBA met representatives of the US Department of State. At the meeting, it was commented that, since 1945, whenever the US has been involved in post-conflict situations, only one of those has not involved a peace dividend. It was Northern Ireland, and the reason given was that nobody asked for one.

180. **Mr McNarry:** That is an amazing comment. What have we been going to Washington for all these years?

181. **Mr Compton:** To deal with part one of the question, the broad priorities will have to be based on where Northern Ireland is today. There are about 57,000 VAT-registered businesses in Northern Ireland, and 89% employ fewer than 10 people. About 40% have no employees other than the owners. Northern Ireland has the second lowest level of business formation in the 12 UK sub-regions and the second lowest level of business growth. It has the highest level of business survival, which, believe it or not, is not a good thing. Ten companies account for something like 60% of all Northern Ireland's exports. Therefore, that is where we have to start.

182. I noted the significant amount of work that the subgroup has done to examine how to generate additional FDI. Mr Smyth will be aware of a report produced 10 years ago, which involved 9,000 businesses and was the single largest review of FDI in the UK since 1945. First, it asked which regions of the UK foreign direct investors considered and why they picked the regions that they did. Not surprisingly,

Northern Ireland was the least-selected option and the reason was the security situation.

183. The second question that the review asked was whether, once a region was chosen, pre-investment hopes were realised. Northern Ireland, of all the UK regions — and compared to the Republic of Ireland — delivered best and delivered most on the pre-investment promises. That was interesting because, when that was measured, the report determined that, over the period, Northern Ireland, with 2·8% of the UK population, consistently attracted 9% of all FDI into the UK. Equally surprisingly was that grants were not one of the top three reasons for investment. The main reasons were available labour, labour skills, infrastructure and a business friendly environment. Also featured in the top ten were strong business and industry links and proximity to markets. In that sense, it would be wrong to assume that Northern Ireland's FDI is, and always has been, through the floor. It has performed reasonably well, having regard to the prevailing political and security situation.

184. During the second Clinton visit, a meeting took place with some of the leading business chairpersons who accompanied him. Someone made a comment that stuck in my mind. It went along the lines of: US investment goes where it is welcome, where it is profitable and where it is safe, and you guys still have not cracked the third one. That comment reinforces the necessity to restore the political institutions and to demonstrate political stability to a wider potential FDI market.

11.15 am

185. It is not by accident that the report from the review that Eoin O'Driscoll chaired has as its second headline: "Ireland's place in the global economy". If we want to know where the broad priorities lie, we have to start by looking at Northern Ireland's position in the global economy. Only by doing that can we decide what we need to do to move Northern Ireland up the value chain and, as my colleagues said, create additional attractions for FDI and drive indigenous businesses into international markets and to increase their export potential.

186. **Ms Ritchie:** Gentlemen, you are very welcome. Mindful that Dr Dobbin said that we should concentrate on economic-enabling activity, infrastructure and developments that have a sustainable future and outcome, can NIBA suggest initiatives in which a one-off investment could make a tangible difference to our economy? What would be the costs and benefits of such initiatives?

187. **Dr Dobbin:** I want to set infrastructure aside for a moment, Ms Ritchie, as I have already identified areas in the infrastructure plan which, if I had control of the country, rather than take out mortgages, I would get the Government to pay for as much of the implementation of that plan as possible.

188. Apart from infrastructure, which includes specific projects, there are certain other areas of activity that merit consideration. Before we came here today, Michael Maguire and I discussed skills. We are nervous about the amount of money that is going into some areas: unless there is a coherent delivery plan, there is a risk that that money may be chasing markets that do not exist.

189. In addition, I have a couple of examples of the sort of innovation that we may need. There is a slight weakness in the subgroup's report in that it does not give sufficient detail on how to take forward innovation. I want to distinguish between innovation and research and development: research and development is about creating knowledge; innovation is about creating money from knowledge.

190. Both the universities say that funding for PhD students is being cut and that, despite Northern Ireland's having some of the best graduate output, it is producing far fewer PhD students for key research areas, such as technology, than other UK regions and Europe. The universities say that we should spend money on creating posts for PhDs in nanotechnology, electronics and life and health sciences, etc. The output of those higher-degree students will feed into the economy in two ways: it will increase Northern Ireland's knowledge base, and it will increase the ability of our skilled people to feed into industry.

191. The universities say that although such expenditure would be relatively modest, it would address the skills and knowledge bases in one fell swoop. They say that although the Department for Employment and Learning (DEL) has cut its expenditure on higher degrees, PhDs and postgraduate study, such investment is crucial.

192. The other area of innovation on which I would spend money would be a programme to encourage inactive companies to become more active in design and product development.

193. I would also spend more on encouraging companies to market outside the Province. I would spend money on product development linked with sales drives. I am not sure whether we need to spend more money on skills or just spend it differently. A business analogy might be useful: if people want to grow their businesses, they beef up their sales teams to more effectively go out to look for business; they beef up their products so that they have something that somebody wants to buy; and they ensure that they have the necessary skills and capacity in their businesses.

194. Lack of ambition is an issue in Northern Ireland. Companies must be encouraged to be more outward looking. The Department of Enterprise, Trade and Investment (DETI) is cutting spending on trade missions; whereas Southern Ireland is increasing the amount spent on them. We need to spend more on marketing and getting our companies to export, and we need to spend more on encouraging them to innovate and to develop products and skills.

195. When Michael and I debated the matter before today's meeting, we were nervous that we would not be able to identify specific skills-development projects that were almost ready for — if I may use this word — cash.

196. **Dr Maguire:** David and I are members of a skills group, the objective of which is to examine the future skills needs of the Northern Ireland economy. One would expect some of the outputs of the thinking of that group to provide a framework within which the education sector could deliver. Anecdotally, my son had to choose recently between A-level English and A-

level chemistry because timetabling meant that he could not do both. He chose English.

197. Through the entitlement framework, the Department of Education (DE) is beginning to open up the range of options for children. It is not just about having a narrow range of academic A levels in subjects that we regard as acceptable; rather, it is about having a much broader range, as you move further along the skills' spectrum to professional vocational skills and considering the range of options that can deliver those. A way to do that could include schools working together — rather than protecting their sixth forms — in a way in which they have not done previously. It could also include bringing in further education colleges, which can be much better than schools at delivering some of those skills. It is a case of going back to that level and saying that we need a wider range of skills to move the economy forward. Of course, we need to be able to make some uncomfortable decisions on how to do that.

198. **Ms Ritchie:** Would joined-up Government between DE and —

199. **Dr Dobbin:** If representatives of Invest NI were here they would say that they have bypassed, or almost missed out on, FDI opportunities because they do not have enough money. The team is not looking as actively as it could for inward investment because it knows that it does not have the money to provide the support that the investment would normally require. We need to ensure that a kitty exists to encourage FDI. At our previous session, David McNarry talked about the inward investors' happy hour and their promiscuity to Northern Ireland. That is an issue. I would like to think that we are cleverer now at attracting the right type of FDI. We still need that investment, but we also need to spend time and money growing our own.

200. If we grow indigenous business, we would have a much better chance of securing commitments to stay in the Province, to put money back in and to keep headquarters here. Our first choice is to grow home investment. However, Northern Ireland does not have many large companies turning out good managers or economically viable expertise. The South has

used FDI companies to create a legacy of capability, which feeds into the economy. Mark's and my companies are two of the biggest in Northern Ireland, yet, on a global scale, they are quite small.

201. To improve the economy, movers, such as Mark's company, must invest in and train graduates and managers. Right now, we should look at how we create the seedbed of future managers. I was trained at a multinational that arrived in the 1960s. It has now gone. My company is doing its best, but it cannot provide the same personal development opportunities as a multinational or create the same calibre of people coming through its books.

202. **The Chairman (Mr Wells):** As we are running out of time, would the two Sinn Féin members ask their questions in tandem? If they do that, Dr Dobbin could deal with both at the same time. I am sorry about this, but time is against us. This is good stuff. It is extremely relevant and it is exactly what we are after. The idea behind the questions is to elicit information, and, to some extent, you are providing information without having been prompted.

203. **Mr McNarry:** If you have any information about Fermanagh, would you perhaps skip over it?

204. **Ms Gildernew:** It is good to see that I have moved Mr McNarry along. Gentlemen, you are welcome. Thank you for this morning's presentation.

205. I shall deviate slightly. I am interested in some of your comments. Dr Dobbin made a point about ensuring that people at the top and bottom of the scale have opportunities to get into the workplace. At the bottom, the voluntary and community infrastructure was built up using European money. That took some people out of third-generation, long-term unemployment and trained them and gave them the potential to enter the workforce. That money was spent wisely. It gave the communities in west and north Belfast a sense of being that had not existed previously.

206. Dr Maguire talked about the wider range of skills that are needed in schools and colleges.

In the first report, we refer to the Twenty-six-County model. While we have A levels, the South's Leaving Certificate covers a wider range of subjects. Pupils are not asked to specialise in three or four subjects at age 16 or 17; they are given broader choice. Should we consider something like that?

207. **Dr Maguire:** We should not tinker with A levels. They are a good qualification, but I agree that they may not be right for everyone. Mechanisms are available to broaden the education spectrum — a BTEC, for example, is the equivalent of three A levels.

208. The problem is that grammar schools are perceived to be under attack. We want to state firmly that we do not want to get rid of the best elements of the education system in Northern Ireland. However, other elements may need to be improved, which means that we must focus on the entire education structure and, possibly, make difficult decisions.

209. If some schools are bad, close them. If some further education colleges are not up to scratch, change them. We cannot allow everything to continue as it is and assume that we will see a difference. We need a radical examination of the current education provision so that we can maximise the situation. However, I am uncomfortable about tinkering with A levels, because they are a good qualification that employers recognise. They provide a good route to university for those who want to pursue a broad academic education.

210. **Dr Dobbin:** Ms Gildernew made a good point about the voluntary sector. In the past, we have not done enough to anchor the voluntary sector to the economy. Perhaps we need a hybrid model in which the business sector is more actively involved in transforming the output of voluntary programmes into jobs, as opposed to upskilling people but not getting them jobs. We have immigrants living and working in Northern Ireland, which proves that while jobs are available, local people are not filling them. Sometimes, nobody wants to do a particular job, but on other occasions, in certain areas, local people cannot fill jobs because they do not have the required skills.

211. Margaret asked earlier what we could do. We need more pump-priming. I could have gone to a university in England, but I did not. I was awarded a scholarship and, through a graduate-training scheme, got into a Northern Ireland company. That anchored me in Northern Ireland, and I stayed here. Money would be well spent on schemes to place young people, at graduate level and at the lower end of the ladder, in a local business environment.

212. I am aware that the subgroup has discussed ways in which the west and the north-west could be developed. SIB would like to see more money spent on roads. It would like to see good carriageway links to the west and the north-west because that would allow people to commute more easily to their jobs, and it would also be easier for businesses to set up in certain areas.

213. The Southern Irish Government put money into the north-west at City of Derry airport. I think that they should put a peace dividend on the table. I do not know whether that would be politically acceptable — I am looking at Jim Wells to see how he reacts.

214. **Ms Ritchie:** He has not reacted yet.

215. **Dr Dobbin:** What is Bertie Ahern putting on the table? In private conversations that we have had with officials, it has been hinted that the Southern Irish Government would be prepared to offer a peace dividend. If I were you, I would go to them and ask them to build a road from Dublin to Derry that links with the road to Belfast. It would help the economy in Donegal, which has not seen a boom, and the economy in the west of Ireland, which is struggling, even with its low rate of corporation tax. Members should say to Bertie that, as part of a deal, he should pay for that road.

216. Members should have a wish list for Southern Irish Government. If they want to help Northern Ireland, let them do it in the best possible way, by getting their chequebook out. You might get a pleasant surprise and be able to lever some money from them. I would bite their hand off and take the money if it meant that they paid for a road from Dublin to Derry. I am not proud and would take money from any source.

217. **Mr Compton:** It has been stated that one reason that the border/midlands/west (BMW) region of the Republic consistently failed to meet its targets for FDI was that it took longer to get from Dublin to Sligo than from New York to Shannon. If the infrastructure is not good, you will not attract FDI. I have been guilty of saying that if there were a motorway to Derry, it would do a hell of a lot of good for FDI and indigenous investment. Why, is there virtually no unemployment in Magherafelt? It is because it has a motorway at the end of its main street.

218. It is not a joke to say that linear infrastructure development can also bring with it economic development. A study that the Federal Highway Administration in the United States has been running since the 1950s shows that for every dollar it spent on new interstate highways it leveraged around 35 cents of private-sector economic investment and improved productivity, that would not have been the case otherwise. Here we have something similar in the “Antrim effect”. The Naas dual carriageway was the first example in Ireland of where the equivalent of interstate highway directly stimulated linear development.

11.30 am

219. **Dr Dobbin:** I hope that that is not heresy, Mr Chairman.

220. **The Chairman (Mr Wells):** As Chairman, I am totally neutral on those issues.

221. **Dr Dobbin:** Sorry, I am addressing you as the body politic, as opposed to you individually.

222. **Mr Sweeney:** If you are going to build a motorway to Derry, it should also go to Lisnaskea.

223. **Dr Dobbin:** I would like it to go to Armagh.

224. **Mr Sweeney:** I look forward to that time.

225. An example of community regeneration is Caterpillar in Springvale in west Belfast. F G Wilson Engineering Ltd, as it was then, decided to build a facility in west Belfast at a time when the area was not politically stable. They employed people from both communities in that area — people who might have been from the second or third generation of a family that had been

without full-time employment — and there is now an exemplary plant there that employs 500 to 600 people.

226. There is a connection between attracting FDI or helping indigenous businesses to grow and getting people's skill sets to a targeted endgame. That is distinct from simply training people for the sake of training them, and then not having the jobs in place for them to do. Good examples exist of where that joined-up approach of training people for a purpose and utilising their skills has worked.

227. **Ms Gildernew:** I agree wholeheartedly with what you have said about roads. It is no coincidence that there is not an inch of dual carriageway in Fermanagh. We have had very little FDI, and we would have been in bad shape economically had it not been for the Quinn Group.

228. Do you agree that investment in infrastructure is probably the most sustainable route for a financial package to take? If money were going into physical infrastructure, particularly roads, would that be our best chance of attracting businesses that would provide long-term sustainability?

229. **Dr Dobbin:** If you wanted to know where to invest, roads would be an essential element, but more would be required. For example, roads and fiscal incentives together would make up a powerful package, because you would be creating better transport and a more favourable investment climate. However, for me, skills are up near the top. Skills and innovation will have the biggest impact on gross value added (GVA) of anything that we do. For example, in today's world it might be the information superhighway rather than the road highway that is most important.

230. The west would improve if there were better roads to and from it. A motorway to Armagh would be a good start, and there should be more carriageways. It takes a great deal of time to get around. I travel on many country roads, and they are very slow.

231. **Ms Stanton:** Do you agree that the same emphasis should be put on the community and

voluntary sector as on the business sector, taking into account the safety measure that was mentioned?

232. **Mr Compton:** In everything that the Business Alliance has said, it has linked two phrases together: "economic regeneration" and "social inclusion". I do not believe that it has ever written anything where it has used the phrase "economic development" without the phrase "social inclusion". The two are inextricably linked. If we were to have a two-tier entitlement to jobs, wealth and prosperity, we would have a major problem — perhaps not today, but in a year's time or in 10 years' time.

233. **Dr Dobbin:** We must ensure that the money that is put into the voluntary sector is generally for capability building. I accept that there are people who will never be economically active, because of their health or whatever reason. Those people will always need support. Some sections in the voluntary sector are addressing needs that are economically related. For example, foreign aid to Africa and other parts of the developing world has moved away from providing food aid to, where possible, trying to encourage farming. Foreign aid has moved away from giving handouts to trying to create self-sustainable employment.

234. The challenge for the voluntary sector is to ensure that it builds capability and thereby eventually builds itself out of a job. That is not to suggest that there will no longer be a role for the voluntary sector to play; however, a more joined-up approach is needed.

235. The voluntary sector in Northern Ireland employs, directly or indirectly, an estimated 40,000 people. That is a large figure for an economy of our size. The voluntary sector cannot, therefore, just simply be abandoned or cut off. We must examine what it delivers. To make progress, we must almost build it out of a job — we must kill the need. We must determine how the voluntary sector and the private sector can be used to build the capability in communities, so that they can stand on their own two feet and have their own jobs and incomes, instead of relying on the voluntary sector to make ends meet.

236. I am interested in that type of approach. There is a role for the voluntary sector. It does great work: it trains people and tries to create social coherence. I am not suggesting that it should be done away with. Instead, I urge us to be careful. We could spend a lot of money on the voluntary sector, but still not kill the need for it. We must remove long-term need by addressing its fundamental cause rather than offering handouts that will address only today's needs.

237. **Ms Stanton:** That can be measured by stability on the streets.

238. **Dr Dobbin:** Absolutely.

239. **Ms Stanton:** That cannot be produced using the safety measure that you suggested earlier.

240. **Mr Compton:** Having said that, it is equally important that the voluntary sector is efficient, effective and fit for purpose. Often, there is a tendency to allow the voluntary sector to take up the slack when the public sector steps back, without ensuring that a voluntary service can provide the same effective service delivery that the private sector would. We must examine whether the voluntary sector is efficient and does the best job it can in areas where it is actively engaged; it should not simply rely on the goodwill of someone who comes to help out two days a week. It must be professional and efficient in its service delivery.

241. **Ms Stanton:** The Committee on the Administration of Justice's (CAJ) report indicates that the gap between the rich and the poor has widened. That must be addressed. It must be addressed at that level and on an equal basis.

242. **The Chairman (Mr Wells):** Time is running out. I suggest that our adviser, Mr Smyth, ask a question, but Esmond is next on the list. I will reluctantly ask David Ford not to ask a question during this round. I will give you absolute priority with the next witness, David.

243. **Mr Ford:** I will take up the first 20 minutes of questions.

244. **The Chairman (Mr Wells):** That is the only way in which we will be able to fit in everyone. Perhaps we should have allocated extra time for those topics.

245. **Dr Dobbin:** We can come back at a later date, Chairman.

246. **The Chairman (Mr Wells):** I am also conscious of the fact that Mr Hewitt has been waiting for quite a long time. I am sure that he must be anxious by now.

247. **Dr Birnie:** I want to thank the representatives from the Business Alliance for attending the meeting. They have made some fascinating points.

248. David mentioned manufacturing several times. How do we tailor any package and any change to fiscal incentives in order to promote tradable services?

249. I want to comment on the contentious issue of building roads everywhere. There are examples in the Mediterranean of economic development that failed because investment was made in motorways and bridges that literally did not lead anywhere. We must be cautious of that.

[Laughter.]

250. I do not suggest that that would apply to Fermanagh.

251. **Mr Ford:** What Esmond meant was that if we were to start building the roads in Fermanagh, there is nothing to the east.

252. **Ms Gildernew:** Roads that go nowhere? Get outside, so that I can hit you a slap.

[Laughter.]

253. **Dr Dobbin:** Esmond is correct to say that the building of roads is not a panacea. However, the north-west, where there is a gateway hub with ports, an airport and a large community, is also a tourist destination. The Armagh area also has huge opportunities for tourism. If carriage-ways or motorways were built to every destination in Northern Ireland, not all of them would be used. The Roads Service has done significant work in identifying what the average journey times are on certain roads. Investment should be made in areas where the average road speed is low, provided that there is a traffic requirement. In some cases, however, it is a chicken and egg situation.

254. The EDF subgroup on innovation examined tradable services and identified two

issues that are holding them back. Invest Northern Ireland evaluates its support to tradable services using its traditional model; that is, it helps companies with assets. It struggles to help companies that have a great deal of intellectual property but hardly any assets.

255. First, companies in the information technology (IT), healthcare and pharmaceutical sectors complain bitterly that they have a long-term return model because they are associated with intellectual property and have no assets, and Invest Northern Ireland is reluctant to support them due to the Treasury's Green Book and the way in which they are assessed. I am sure that Victor Hewitt, who is sitting behind me, is wondering what I am talking about. Those types of businesses require a different support model. Invest Northern Ireland must be given some latitude to support them.

256. Secondly, we want to avoid tradable services where there are "battery hen" jobs, with a lot of people doing call-centre-type work. We compete almost solely with India in that line of work. I am not saying that we do not want those jobs, but they are not in my hierarchy of preferences. I would prefer support-desk jobs in IT or in financial services, where the operative in the call centre is required to have some capability that cannot be replicated easily, and for which a graduate or someone with the necessary training is required.

257. Let us avoid replicating "sewing machine" jobs. We need to create a higher level of jobs in the tradable-services sector. We are particularly deficient in financial services. Edinburgh, Bristol and other regional capitals in the UK have vibrant financial-services sectors, as has Dublin. That is where the highest added value is and, generally, where more wealth goes into the community. Northern Ireland has almost none of that.

258. The biggest opportunity for us — this is not a political point but an economic one — is to take the overspill from Dublin. Dublin is overheating. Rents are going through the roof, and there are companies who would love to expand on the island, but they cannot get suitable people. Good arterial routes between Dublin

and the north-west and between Dublin and Belfast are required, as is good office accommodation. We have the perfect broadband infrastructure. Northern Ireland could take the overspill from the South, because those guys are struggling, and they are keen to do it. As I said, that is not a political point, but if there is business to be done, why not bring it here rather than let it go to Edinburgh, London or Bristol?

259. Northern Ireland is a relatively low-cost centre, and we have graduates whom we can get back to Northern Ireland or keep here. However, we must ensure that the education system is turning out the right type of skills. Invest Northern Ireland has started a financial security certificate programme — a good initiative and through it is trying to create some critical mass, but, at the same time, we should be bringing in one or two big players. Invest Northern Ireland is also doing that, and that might lead to a cluster and some good value.

260. **Mr Smyth:** I will push the challenge back to Dr Dobbin. I have been impressed with the subgroup's first report, which covered lots of territory. Aside from the fiscal incentives and the economic package, no one seems to want to talk about the longer term — although we have come close to discussing it this morning.

261. A few years ago, Northern Ireland had an advantage over the rest of the world. Northern Ireland is still the only place on earth where four- to 18-year-olds have broadband Internet access in support of the national curriculum. We are supposed to have a balanced learning environment around that — Classroom 2000. However, that is falling flat on its face. Apart from looking at the other interesting topics that arise, innovation in education is a clear instance in which there was no joined-up thinking. Someone took a big risk by spending £300 million on it. It is still not too late to rectify the situation, but bridges need to be built.

262. **Dr Dobbin:** Do you know why it is not working?

263. **Mr Smyth:** Yes.

264. **Dr Dobbin:** I have been reasonably close to it, and my feeling is that they put all the

money into hardware. The infrastructure was created, but no investment was put into educating teachers on how to use it or on how to coach pupils. It was a classic example of opting for the nice, big, shiny vehicle and forgetting to teach someone to drive it. Many of our teachers are not exposed economically, and we have a particularly conservative bunch of teachers in both primary and secondary education. Money must be spent on marketing, and teachers must be sent out into business, so that they can be more informed about career choices and IT.

265. In IT, the kids are ahead of the teachers in some cases, and teachers complain that broadband Internet was installed but that they were not well enough prepared in order that pupils could benefit fully. Do you agree with that?

266. **Mr Smyth:** I do indeed.

267. **Dr Dobbin:** Is there anything that we have said that Mr Smyth thinks is economic heresy?

268. **Mr Smyth:** Not at all. I have some further questions, on which we will come back to you, no doubt.

269. **The Chairman (Mr Wells):** Unfortunately, time is running out. Do not get me wrong: you have provided us with good stuff. We should perhaps allocate more time the next time that you attend the subgroup, so that we can tease out more information.

270. **Dr Dobbin:** We are happy to return.

11.45 am

271. **The Chairman (Mr Wells):** If you have any further written evidence that you would like us to receive about anything that has arisen during discussions, we need to have it by 18 September. We are working to a tight deadline.

272. I thank you and your team for a comprehensive and detailed submission, which is what we expected. It has been extremely useful. The subgroup has been fortunate in the standard of evidence taken throughout this process, and you have added to that. If we continue beyond 24 November, I am sure that we shall be seeing a lot of you.

273. **Dr Dobbin:** You must continue. The one thing that we cannot afford, and I speak now as a voter —

274. **The Chairman (Mr Wells):** Can you tell us where your vote lies, first? *[Laughter.]*

275. **Mr McNarry:** There goes the Chairman's impartiality. *[Laughter.]*

276. **Dr Dobbin:** My vote is decided by manifestos, not by tribal politics. What I want to see are economically sound manifestos and momentum in this process. I hope that you do a deal by 24 November but, if you do not, you must bank something, so that the prospect after that is better for a deal.

277. **Mr McNarry:** The Assembly is finished if we do not do it.

278. **Dr Dobbin:** I want to see a deal. Without devolution, the Northern Ireland Office (NIO) will wreck Northern Ireland, whether through perversity or because Ministers are part-time and not that interested. National policy is killing Northern Ireland at present — we need to get away from it. The population is missing out on a big opportunity. We need devolution. How you guys do it, I do not know. Set aside constitutional politics and get stuck into making life better for all of us. That is the way forward.

279. **Some Members:** Hear, hear.

280. **Ms Gildernew:** You have just written our manifesto. *[Laughter.]*

281. **Mr McNarry:** The past 30 years did not happen then? We do not have terrorists, and we are not being asked to bring them into the Government, is that it?

282. **Dr Dobbin:** I do not want to minimise these issues, but we are where we are.

283. **The Committee Clerk:** On the practicalities, Chairman, we covered a lot of ground on education and skills near the end. That is for our third report. Would the subgroup like to invite the Business Alliance back to cover that particular area?

284. **Dr Maguire:** Are we not meeting on 28 September, in the guise of EDF, to talk about skills?

285. **The Committee Clerk:** Yes, and you could cover skills and innovation then. We should not duplicate unnecessarily.

286. **The Chairman (Mr Wells):** Thank you, gentlemen. We still have a quorum, but only just.

287. **Mr McNarry:** Is the DUP absent for a genuine reason? It is not a boycott?

288. **Ms Ritchie:** It is not a diplomatic absence, for want of a better word?

289. **The Chairman (Mr Wells):** Definitely not. There is a genuine reason for why the DUP is not here. As I speak, we — sorry, they — are trying to formulate a team. *[Laughter.]*

290. **Ms Ritchie:** Is that a slip of a cup?

291. **The Chairman (Mr Wells):** Mr Hewitt, I am sorry for keeping you waiting, but you can see why that has occurred.

292. **Mr McNarry:** Are you not in the same position as Naomi Long? Can you not double-up this afternoon?

293. **The Chairman (Mr Wells):** No. I am not a member of the subgroup.

294. **The Committee Clerk:** It would not be procedurally correct for Mr Wells to chair the subgroup, and then to sit on it as a member.

295. **The Chairman (Mr Wells):** Yes, and that is why I cannot constitute the seventh member to maintain a quorum, if that is what you were thinking.

296. Mr Hewitt, thank you for coming. We have got off to a good start, as you can see. We look forward to your evidence. Normally, we would give you an opportunity for a few opening comments. Mr Ford will be the first to ask questions. To be fair to members, I have reversed the order of questioners, to compensate those who felt rushed last time.

297. **Mr Victor Hewitt (Economic Research Institute of Northern Ireland):** Thank you, Chairman. I congratulate the subgroup on its remarkable progress thus far and for reigniting a long-overdue debate on the economy. That said, the hard work begins now. The problem is how to interpret the vast amount of evidence that has

been accumulated and frame it into sensible proposals.

298. Economics is a difficult discipline. I know many amateur economists, even though I do not know too many amateur brain surgeons. However, economics is a good deal more difficult than brain surgery, although both make one's head hurt after a time. The problem with interpreting economics is that matters are interconnected, so that what appears on the surface to be straightforward is, in fact, anything but. There are all sorts of feedbacks in the economy, and apparently simple linkages turn out to be quite the contrary.

299. I hope that the subgroup will think everything through carefully and take the best advice that it can find. I have read the evidence that has been presented so far, and all the building blocks are in place. It is now a matter of assembling them. There is some confusion in the first report about cause and effect. Poor industrial structure and productivity are mentioned as though they are two separate things, whereas one leads to the other.

300. In my second submission, I have tried to clarify the distinction between various economic instruments, because there seems to be an assumption that some can be substituted for others, and that subsidies or grants for inputs, such as capital, training and skills, R&D tax credits, and so forth, are almost perfectly substitutable for other incentives, such as corporation tax. That simply is not true. They are qualitatively different animals.

301. When talking to people from the Republic, I find that it is perfectly clear that Northern Ireland is quite a few paces behind the game. The Republic is currently a much more sophisticated operation than Northern Ireland. That said, because we have the ability to see what has been happening elsewhere, we do not have to reinvent the wheel. I hope that what comes out of this process is a radical package to get Northern Ireland on the higher trajectory of growth that we all want to see. If we keep going as we are, everyone in this room, their children and their children's children will be dead before Northern Ireland ever achieves convergence with even the UK average.

302. **The Chairman (Mr Wells):** David, as you were squeezed out when the previous group of witnesses were being questioned, I promised you the lion's share of the early stages of questioning.

303. **Mr Ford:** Thank you. Mind you, after Mr Hewitt's comment on amateur brain surgery, I am deeply conscious that I am sitting beside Esmond Birnie.

304. **Dr Birnie:** I am not a surgeon.

305. **Mr Ford:** I should probably not declare my primary degree. You can look it up on the Assembly website if you wish, Mr Hewitt. I do not claim to be anything more than an amateur economist.

306. Thank you for your written submission. As the first questioner, I confess that I have not had as much time to study it as I should have had. I want to tease out something on the issue of the balance that should be struck between attracting FDI and the growth in indigenous business. I did not have a chance to ask the previous group of witnesses about that, but it featured in their evidence. David Dobbin, in particular, rightly emphasised that one virtue of indigenous businesses is their commitment to Northern Ireland, and yet, on the other hand, because there is not a critical mass, FDI may be necessary. I am interested in your thoughts on that, Mr Hewitt.

307. Your submission specifically referred to where resources should be targeted to bring about growth. You mentioned schools, particularly those at the lower end. Will you tell us more about how you consider education to be linked to driving the economy forward? That crucial issue requires detailed consideration.

308. **Mr Hewitt:** When examining the balance between FDI and indigenous businesses, it is important to identify which growth model we are considering for this economy. On what basis can this economy grow to its maximum potential? The economy cannot grow on the basis of its population of 1·7 million. That simply is not a big enough market. Therefore, the only way forward is through what economists call export-

led growth — it is necessary to access and export to the wider world.

309. Northern Ireland imports from the wider world, but is not exporting enough to pay for that. That leads to the question of who the exporters are. Many indigenous firms export, but 90% of them are small and employ fewer than 10 people, and getting into the export market is difficult for small firms. The real heavy lifters in the export world are FDI companies, because, almost by definition, they work globally. They are attempting to sell their wares around the world and organise themselves in a way that will maximise their profits around the world. Without accessing the FDI market, the prospects for growth on the back of the indigenous sector alone are fairly minimal. It is as simple as that.

310. There is a moral imperative, as well as an economic one, to improve our schools and our education system. For decades, we have endured a situation whereby the top end of the schools system is producing excellent people, but the output at the bottom end is relatively dismal. That is partly a matter of resources, but it is as much a question of management as anything else.

311. The schools system is unique in that it holds a vast amount of information — the history of individual pupils can be traced right the way through the system. We know who taught them and what schools they attended. That is a fantastic database to interrogate. However, we are not making use of that information to improve the system, especially at the bottom end.

312. 'The Irish News' has published some school tables. I know that there are problems with those; nonetheless, it is rather disturbing to note the huge disparities between the top and bottom ends — that is in the secondary sector alone, never mind the grammar schools. It is really not acceptable that, in some schools, only 4% of pupils are obtaining A to C grades at GCSE. We must address that problem.

313. Educational performance relates to economics in that the less educated people are, the less able they are to interact with the labour market and the world. We must interact with the world, because that is where our future lies.

314. **Mr Ford:** Should the curriculum be changed to focus more on vocational aspects, or is it simply a matter of schools doing what they are currently doing, but doing it better?

315. **Mr Hewitt:** It is more a case of the latter than the former. The curriculum is, of course, important. A great deal of thought goes into developing it — sometimes new ideas come along that are somewhat suspect, but, by and large, we have a reasonably solid curriculum.

316. As I said, this is really a management issue, not a policy issue. The information is available, as, by and large, are the resources, although some skewing and additional pump-priming is probably needed. However, it is a matter of starting the hard slog needed to achieve the objective. That is what we are not doing; we are not putting in that management. It will probably take a decade, but if we made a start and if we knew what we wanted to achieve, good management would deliver it.

317. **Dr Birnie:** Thank you for coming here today, Victor.

318. I have two questions. You used the expression “radical package”. Could you give us any hints as to what such a package might contain?

319. Secondly, my interpretation of the final paragraph on page 2 of your written submission is that corporation tax is the best fiscal instrument. Is that right, and, if so, why do you argue that?

320. **Mr Hewitt:** The two matters are somewhat linked. The most radical dimension of a new package would be a refocusing of our fiscal incentives away from grant packages and towards a tax-based package of incentives. Why is corporation tax the superior instrument? The reason, to put it simply, is that it is simple.

12.00 noon

321. Companies seek simplicity in the packages that they are offered, so that they can calculate easily the effect that they would have on their bottom lines. I do not decry skills or the availability of labour and good infrastructure. They are important. However, when courting companies,

those attributes only really get interested parties on to the long list. Beyond that, companies seek sophistication and understanding of their wider needs, and that means their profits. Corporation tax is an instrument that goes to the heart of that. It does not influence companies’ behaviour in matters such as R&D or capital investment — that is their choice.

322. **The Chairman (Mr Wells):** Mr Dallat was to ask the next question but he has been called away. Perhaps Ms Ritchie would take his place.

323. **Ms Ritchie:** In your submission, you refer to the need to move to a high-growth trajectory. Emphasis has been placed on corporation tax, but, on a totally different slant, where could savings be made to cover the costs of fiscal incentives?

324. **Mr Hewitt:** In the longer term, there should be no costs for fiscal incentives. The purpose of the exercise is to ensure that someone else takes a hit on tax — that works to one’s advantage.

325. Microsoft has intellectual property rights in the South. Therefore, its profits are channelled through there. It generates about £9 billion turnover in Europe. It paid €300 million corporation tax in the South and €17 million in the rest of Europe. That is the game in the South — even if it gets nothing else from Microsoft, at least it will have gained €300 million in tax. If corporation tax works, it is as a revenue generator. There are upfront costs, because one cannot be selective with corporation tax — all companies must pay it. Inevitably, companies will take a hit upfront of 30% or 19%, but they only pay 12.5% in the South. However, there are ways in which that tax could be minimised. FDI will not be attracted for a couple of years, so there is no point in giving corporation tax upfront now — it could be phased in over three years. However, the whole purpose is to generate more activity here. That activity will generate tax revenue, which will more than compensate for any initial loss, and windfall gains to existing customers.

326. **Lord Morrow:** You said that our education system is good at the top end and poor at the

bottom, but I am not sure what is happening in between. Could I take you to South Tyrone —

327. **The Chairman (Mr Wells):** We have been there already this morning.

328. **Lord Morrow:** There are entrepreneurs who have never set foot in a university, yet, today, they employ up to 900 people and have done exceptionally well. I mean no disrespect to anyone around the table, but those entrepreneurs put us all to shame with their performances, regardless of their education. They possess entrepreneurial skills, and those are more lacking than anything else in Northern Ireland. It is popular to knock our education system: it seems to be the fashionable thing to do. However, I have a higher regard for it than most members. I am not saying that the system is perfect, but it is better than it has been given credit for.

329. Is there scope to look at those who have achieved success, in spite of, as you call it, a bad education system? They came through the existing education system, and they are the main employers now — at least in my part of the world. I do not know about elsewhere. We get carried away sometimes and blame all our problems on the education system. I am not saying that it should not be improved on, but we are moving towards scrapping the whole system and starting over again. That is a dangerous route to go down.

330. **Mr Hewitt:** I want to make it plain that I have the highest admiration for teachers. I was involved with a school and I saw what teachers go through. It is no surprise to me that, at the end of, say, 30 years, they are pretty tired. Teaching is a hard job.

331. However, we must be aware that qualifications affect life chances. I will give you a specific example. Suppose pupils are in a good grammar school that has not produced a single A grade in chemistry for years. Effectively, that cuts the chances of those studying chemistry in that school to move on to subjects such as medicine, because they simply will not get into university without that qualification. That is a practical example; there may be other routes to university, but, in general, if a school does not

produce the required qualifications, it cuts off people's life chances.

332. As regards those who come through school without formal qualifications, talent will always find its way to the top. I salute such people. However, we cannot rely entirely on that group of people for the future of our economy.

333. **Ms Gildernew:** As Maurice pointed out, there are parts of the country in which the future of our economy has had to rely wholly on people who do not have formal qualifications. Earlier, the Business Alliance talked about the importance of infrastructure. Have you any suggestions in respect of one-off investments from the peace dividend that would address some of the difficulties that we have, particularly the regional variations?

334. **Mr Hewitt:** Members may have seen Google Earth on the Internet; users can zoom in on maps of particular countries. We have facilities that allow us to map certain characteristics onto pictures of Northern Ireland using Google Earth. We produced one on wealth, with blue representing the wealthy areas and red representing the less wealthy ones. It was fascinating to see the dark blue over north Down become paler and to see the map become progressively red as it moved westwards. The regional imbalance is a serious problem — we cannot pretend otherwise.

335. I am in favour of opening up the west of the Province through infrastructural links. I listened carefully to what David Dobbin said about mobilising not only ourselves, but the Government of the Republic to produce additional roads infrastructure. That is an interesting idea that should be pursued. I am wearing a political hat in that regard, but, on an island, infrastructure and networks are important. They should be considered in the round, however, rather than in small parts.

336. That is only one part of the jigsaw. Fermanagh is “out there”. It is not going to attract a vast amount of FDI. I am not saying that it could not; it has happened in the South. Fermanagh's future, however, properly lies in exploiting tourism, sympathetically and to the maximum. The population base in Fermanagh is

50,000 in total — the equivalent of a medium-sized town.

337. It is very difficult to carry out economic development at a distance for a population of 50,000, which is well scattered around a fairly substantial piece of land.

338. **Ms Gildernew:** It is more than 50,000. I get almost 20,000 votes there.

339. **Lord Morrow:** Is that Fermanagh and South Tyrone?

340. **Ms Gildernew:** Yes.

341. **Mr McNarry:** You are only in two years — you will be taking out a mortgage on the strength of those votes.

342. **The Chairman (Mr Wells):** Let us not get into that. We have discovered this morning that one member's view of the world ends at Dunmurry and another's starts at the Ballygawley roundabout.

343. It does not look as though John Dallat will be back in time to ask his question. I am not sure what has happened to him. I was about to call him, but he has gone.

344. **Ms Ritchie:** May I go out to find him?

345. **The Chairman (Mr Wells):** If he gets back in time, John Dallat will ask the next question, followed by David McNarry.

346. **Mr Smyth:** I have two questions for you, Victor, and you are probably expecting the first one. As a second-best measure, would you care to speculate on the potential impact of a slightly more generous R&D tax credit than that considered by Prof Richard Harris — perhaps something in the order of 200% — on Northern Ireland's attractiveness for FDI?

347. Secondly, will you consider the corporation tax relief grant legislation that is still on the statute book as a possible second-best measure? I am not sure whether the subgroup knows about that legislation, which was not operable at the time. I understand your arguments about simplicity, but it seems to me that that is a measure that we already have. It is a de facto 10% corporation tax rate, if we could make it work.

348. **Mr Hewitt:** I will answer those questions in turn. On the R&D tax credit, as members are aware, we sponsored a fairly extensive study by Prof Richard Harris in Glasgow. I think that members have a copy of that. He found that if one throws money at problems, one can make things happen, but they tend to happen very slowly. It took 10 years for the effect of the tax credit to work its way through. That is a very slow-acting measure. The magnitudes that we are talking about are, at present, quite small.

349. Your question is really about whether we can attract FDI on the back of a more generous tax credit system. That is possible, but I do not think that there will be an enormous avalanche of companies coming in on the back of an R&D tax credit. That does not apply only to Northern Ireland. The UK experience with R&D tax credits has been really quite disappointing. The Chancellor has been reconsidering means to improve those measures. He was particularly interested in the take-up in Northern Ireland being so low, and what could be done about that.

350. Existing firms favour grants over R&D tax credits, because they immediately transfer the risk, whereas the R&D tax credit transfers some of the risk back to them — firms must do the risky bit to gain the credit. R&D tax credits are perhaps one weapon in the armoury, but I emphasise that it is an input weapon that deals with activities of firms and attempts to induce them to do more than they would perhaps wish to do in the hope that that would drive up output. That is not an output instrument.

351. In its entire history, only three firms considered corporation tax relief grant legislation. It was an attempt to use grants to produce the same result as a 10% corporation tax, which was then in existence in the Republic of Ireland. The conditions placed on that measure, with regard to its justification, meant that it was a dead letter from the beginning. One had to make 20-year projections of the profits of the likely inward-investment company. That was a nonsense, and the measure never really got off the ground. That measure fails the simplicity test massively. I cannot emphasise enough the importance of simplicity. The Republic has

forged ahead on the basis of a very simple and well-understood tax rule, backed up by a fairly comprehensive set of double-taxation treaties with likely investors.

352. We have an enormously complex grants system, whereby firms have to go through business cases, green book appraisals and all sorts of things. If they have a choice, businesses will always go for simplicity rather than jump through hoops such as that.

12.15 pm

353. **The Chairman (Mr Wells):** Lord Morrow has reminded me that several members are involved in the Business Committee at 12.30 pm, so we need to work to that scheduling.

354. **Mr Dallat:** We are conscious of the millions of pounds that the Department for Employment and Learning (DEL) spends on basic skills. You said that the school curriculum is fine and that the examination system is good, and then you referred to the school league tables, which are very attractive at the top end but — and here I agree with you — an absolute horror story at the bottom end. Are we to believe that the teachers and pupils at the bottom end, who produced the 6%, are all dysfunctional and really bad, or is there a need to take a second look at the education system and how we treat people? I can see the revolving-door syndrome going on and on, with people who fell through the safety net being sent round and round on basic skills courses, which cost the sun and the moon, and never become part of the economy.

355. **Mr Hewitt:** I quoted the school league tables, which focus on GCSEs and A levels. There are problems at a much more basic level than that. Quite a few people have great difficulty with reading, writing and counting beyond 10. That is not acceptable. We should not write off those people, saying that it is too difficult and that they have problems. Of course, they have problems. Everyone has problems, but if we give up on those sorts of basics, we are taking ourselves out of the game altogether.

356. **The Chairman (Mr Wells):** Mr McNarry, you are the last member to ask questions. I am conscious of the time because of the Business

Committee. Can you try to wind it up at about 12.25pm?

357. **Mr McNarry:** Yes. It is good to see you again, Mr Hewitt, and refreshing as usual.

358. The report was debated in the Assembly, and comments were made about corporation tax. I am glad to see that some of those comments have percolated into the public domain. I am asking this question in total ignorance: is there an accurate costing available that would show the benefits and the uptake of reducing corporation tax, which would make it easier for people like me and the general public to understand?

359. Going to under 12.5% is some drop. That point needs to be understood because there is a widespread perception — one that is growing because of what is happening in people's lives — that such a radical proposal, without explaining its merits and value, would only feed the fat cats more, while people are overtaxed, politicians do not know what they are doing, and hospitals are under pressure — the one just up the road from here certainly is. How can such a reduction be justified, and, above all else, if we are going to justify it, how can it be explained fully to the layman?

360. You mentioned Microsoft. Could some figures be produced so that people could actually see the potential value?

361. **Mr Hewitt:** At the beginning, I said that we must be very careful when interpreting economics, and I will give you an illustration. Corporation tax is a tax on the profits of companies. The natural assumption is that companies pay this tax. Companies pay no tax at all. The people who pay tax are the shareholders, the workers and, to some extent, the supply chain of the company. There is a difference between the formal incidence of a tax: who is legally responsible for paying it, and who actually pays it. Corporation tax is one of the taxes that shifts massively from the person who is charged with it to others.

362. In a sense, the distributional aspect of corporation tax is really a non-question. I understand why a layperson might think that we were giving companies a lot of money. The reality is

that we would not be. What happens is that the tax payments that these companies would otherwise have made in their own countries of origin are diverted. If companies come to Ireland from the United States to get the benefit of lower corporation tax, the real losers are taxpayers in the United States. They are prepared to live with that because Ireland is a relatively small country. If the UK were to introduce a lower rate of corporation tax, it would be a different matter. There are a lot of misconceptions about tax that need to be cleared up.

363. One of the objectives of the study that we are working on is an attempt to quantify the benefits and the Exchequer costs of the exercise. The initial Exchequer costs would probably be about £250 million — that is a simple calculation off the top of my head. If everything went well, that would be more than repaid. Indeed, one of the practical difficulties is that if corporation tax were repatriated to Northern Ireland, it might bring in so much money that the Treasury would decide that it wanted a share of it and that Northern Ireland could not keep it all.

364. **Mr McNarry:** I have no doubt that you say that with some expertise, but how do you prove it? Can you show the subgroup that that benefit would arise? Bear in mind that if something came to pass, our political futures could rest on this if we were unable to explain the benefits to the public, who might have a different perception.

365. **Mr Hewitt:** The simplest way to do that is to look at where corporation tax works and to compare that with what we have at the moment. There are different estimates, but corporation tax brings in £600 million a year tops here. In the Republic, it brings in about 40 billion. Its population is three times the size of ours. You need only look at those figures to see the potential gain. If we could replicate that on our scale, we would be doing very nicely indeed.

366. **The Chairman (Mr Wells):** Is that figure in euros or sterling?

367. **Mr Hewitt:** It is probably in euros. I can get the actual figure.

368. **Mr McNarry:** How could we, as a region of the UK, argue for this, while respecting our membership of the UK with other regions such as Scotland and Wales?

369. **Mr Hewitt:** Now we are getting into the practical difficulties, which are, of course, very important. There are at least five, probably six, practical difficulties. Top of the list is making a case for Northern Ireland's being so unique that it needs this differentiated corporation tax. There are the political arguments, but I shall leave you to make those.

370. **Mr McNarry:** I was looking for a bit of help.

371. **Mr Hewitt:** There is the legacy of conflict, and we are literally on the border of a country that has such a tax regime. You can play it around that. This is probably a one-off opportunity that will not come again.

372. I can tell you this much on the practicalities: it is doable only under devolution. It is not available under direct rule. That is not a political issue with the UK Government; it is a European issue. The findings in the Azores case made it absolutely clear that one cannot get a reduction in the rate of corporation tax under direct rule.

373. There are many other difficulties, such as the European Union. One of the difficulties that I have run across, and which no one has mentioned yet, is the matter of double taxation treaties with the countries from which we might expect FDI. The Republic has a whole series of double taxation treaties with various countries. Northern Ireland would need to get the UK to modify its double taxation treaties on its behalf, and that might involve major difficulties. The Northern Ireland Act 1998 would have to be amended, because it does not contain powers of taxation.

374. There are difficulties, but sometimes the difficulties argue for themselves, so they should not intimidate us. We should consider them, analyse them and find ways round them.

375. **Mr Smyth:** That was a very clear articulation of the problems. My reading of the Azores decision is that it addresses the issue of

making up the deficiency in taxes. That is an internal decision. In addition to being autonomous, we would have to take a decision on corporate tax unilaterally, as it is a matter for a geographical sub-region. My only question is: if a reduction in corporation tax is not doable, what is the next best fiscal incentive that we should campaign for?

376. **Mr Hewitt:** We are back to more of the same. We would be tinkering at the margins of matters that we have been involved in for years anyway. There are no other really big ideas floating around. That is the blunt truth. If we keep doing what we have always done, we will keep getting what we have always got.

377. **The Chairman (Mr Wells):** Thank you, Mr Hewitt; that was very helpful. Our witnesses have opened a rich seam of information for us.

378. That is the end of the public hearing. As I am conscious of our quorum, I remind members to be back here at 2.00 pm.

379. **Mr McNarry:** When the report for which we are anxiously waiting is complete, perhaps Victor will come back to us.

380. **Mr Hewitt:** I know that you are very keen to get the report — so am I. Given the subgroup's timetable, it is unrealistic that a full report will be available in time. We might be able to give you a preliminary view, one that may not be fully articulated and that may be based, to some extent, on a review of the existing literature. It might answer such questions as whether there is clear evidence that corporation tax has a substantial impact on FDI. I will not promise a quantification of matters, but, by next week, I may be able to provide a helpful statement along those lines. Of course, there will also be a full report in due course.

381. **Mr McNarry:** We can meet beyond next week, can we not?

382. **The Committee Clerk:** Yes, but the difficulty is that the economic package report is due by 4 October.

383. **Mr McNarry:** Could we have an extension on the fiscal issues report?

384. **The Committee Clerk:** Yes, but the timeframes are related.

385. **Mr Hewitt:** With your permission, we will take a two-stage approach. Initially, we will try to get you a statement of the likely outcome, without giving absolute guarantees; and the report will follow when it is available.

386. **The Committee Clerk:** You mentioned 16 October, but the subgroup had hoped that you could get the report out by 5 October.

387. **Mr Hewitt:** I am dealing with academics; I hesitate to give absolute assurances on anything.

388. **The Chairman (Mr Wells):** You are welcome to stay for lunch.

389. Naomi Long will chair the 2.00 pm session.

The Subgroup was suspended at 12.29 pm.

On resuming —

2.04 pm

(The Chairperson (Mrs Long) in the Chair.)

390. **The Chairperson (Mrs Long):**

Members, we have a quorum.

391. **Mr Ford:** It took an economist to make up the numbers.

392. **The Chairperson (Mrs Long):** This afternoon, we shall take additional evidence from Sir George Quigley, and also evidence from InterTradeIreland and the Planning Service. The questions that we hope to ask the delegations can be found in the members' pack. I remind members to switch off their mobile phones completely because they interfere with the Hansard recording system.

393. **Mr McNarry:** Have the witnesses been told to keep their presentations short? Some presentations have been a bit lengthy.

394. **The Chairperson (Mrs Long):** I intend to ask the witnesses to state their cases coherently and concisely, allowing them 10 to 15 minutes for their presentations. That would give the subgroup more time to ask questions, and the witnesses can raise further points during the question-and-answer sessions. I hope that members are happy about that.

395. **The Committee Clerk:** When Sir George first appeared before the subgroup, he read from his presentation. You might discourage him from doing that today.

396. **Mr McNarry:** Witnesses tend to ignore that guidance. I can understand that.

397. **The Chairperson (Mrs Long):** If witnesses have written presentations, I can ask them to circulate their papers in order to expedite the presentations. That would leave us more time to ask questions, which is the more important part of the session. If everyone is happy with that, we can move on.

398. **Ms Gildernew:** Before we do, Naomi, I want to say that the staff has done excellent work over the past hour or so. A lot of hard graft has gone into all that photocopying.

399. **Some Members:** Hear, hear.

400. **The Chairperson (Mrs Long):** Good afternoon, Sir George, and welcome to this meeting of the subgroup. We thank you for agreeing to attend. If you have a mobile phone with you, we would be grateful if you would switch it off because it interferes with the Hansard recording equipment.

401. The evidence session will last approximately 45 minutes, and your presentation should be as brief as possible — about 10 minutes. If you have a written presentation, you may wish to circulate it among members, who would be grateful to receive it. That would allow us to use the remainder of the time to focus on the question-and-answer session, when we can tease out in more detail the points that you wish to raise.

402. We thank you again for attending the evidence session, and you may now start your presentation.

403. **Sir George Quigley (Industrial Task Force):** Thank you very much indeed for your welcome. May I introduce my colleague Mr Tony Hopkins, who is joining me in this project?

404. **The Chairperson (Mrs Long):** Thank you, Tony. You are also very welcome.

405. **Mr Tony Hopkins (Industrial Task Force):** Thank you.

406. **Sir George Quigley:** Nobody could fail to be impressed by what the subgroup has produced so far in such a short time. I offer my congratulations to the members and to the staff. I am sorry that we were unable to provide written evidence in advance of this evidence session. There was simply not enough time, but we shall let you have something in writing no later than Monday. I hope that that written evidence will reinforce what I intend to say briefly this afternoon.

407. The challenge is to find ways to develop and implement a new model that delivers a high-value-added, export-driven, well-balanced economy and closes the persistent wealth gap, and the growing productivity gap, between Great Britain and Northern Ireland, and still more between the Republic and Northern Ireland. Only a highly productive economy is

capable of remaining competitive and, therefore, sustainable.

408. Only thus can we get out of the rut of an economy that provides low value-added, low-paid jobs, with all that that entails for access to opportunity, quality of life and standard of living. Only a radical change of direction will enable a move to a new growth path that achieves the necessary fundamental structural change — and I stress “structural”.

409. A reduction in corporation tax to not more than 12·5% is an indispensable element in any package, and one that challenges the status quo to such an extent that, if those who will be responsible for the economy cannot secure a reduction before the establishment of an Executive, the chances of reducing the rate after that will be minimal. That is a critical point, so timing is of the essence.

410. Our previous oral evidence and papers that we submitted to the subgroup set out our stall. However, our further written evidence will elaborate on a few points. First, the most recent authoritative evidence demonstrates how buoyant global FDI flows will be over the rest of this decade and, one assumes, beyond. Western Europe is set to be the world's largest recipient of FDI.

411. Secondly, that evidence expects the Republic of Ireland — a country with a population of about four million — to attract approximately 1·5% of all global FDI. Between now and 2010, average FDI inflows to the Republic are expected to be just short of \$5,000 per head of population. If Northern Ireland were to receive FDI on that scale, it would amount to £4 billion per annum. That is more than 10 times Northern Ireland's total FDI in the past 10 years. That starkly shows the urgent need for Northern Ireland to equip itself to emulate, as far as possible, the Republic's performance.

412. Thirdly, with regard to the location of investment, the relevant tax rate is the effective average tax rate, not the effective marginal tax rate. The marginal tax figures were quoted in evidence to the subgroup a month ago. The Centre for European Economic Research (ZEW) figures for the effective average tax rate for the

UK and the Republic are 28·9% and 14·7% respectively.

413. Finally, assembling a package of other forms of fiscal incentives, such as tax credits, tax allowances, and so on, for R&D or whatever, would not equate to a reduction in the rate of corporation tax; they are apples and oranges. Other fiscal incentives would not have the same significant attraction factor as the corporation tax proposal would have.

414. Following a chief executives' forum in Queen's University last week, a senior figure in the Republic's business world took the trouble to write to me, saying:

“I thought I should let you have a brief comment to support your arguments in favour of a 12·5% rate, rather than maintain a higher rate with targeted capital allowances and research credits. The low rate of tax is automatically far more attractive to high-profit margin companies and constitutes a self-selection process for such companies.

These are typically ones which are at the most profitable phase of the product life cycle and who have written off, or incurred elsewhere, R&D expenditures at an earlier phase of product development. The profits margins of such companies can be very high, so a low tax rate without conditions is most attractive.”

415. He also said that a high corporation tax rate with generous offsets might appeal to low-margin industries, such as those in many traditional sectors, but that we should not be trying to attract such firms to Northern Ireland.

2.15 pm

416. I shall move on to the other elements of the package that we suggest. Coupled with tax, the subgroup should major on the remoulding and development of the human-resource element in Northern Ireland — the human capital. That takes us into the field of education and training. It is useful to have an overarching theme, not only for local consumption but for the outer world. The theme that we suggest is “tax and talent”, which could become the brand to characterise Northern Ireland and be the key selling point to the outside world.

417. The human-capital agenda is huge and all-embracing, and it touches every man, woman and child in the country. An Executive looking back after a first term could take pride in having touched Northern Ireland significantly and in so many ways.

418. In a way, the human-capital agenda defines itself. The first task is to eliminate the underachievement that starts at primary level and, very often, persists throughout secondary level. The second task is to diversify opportunity for all at secondary level, so that those who want to pursue vocational accreditation are as well placed as those who have traditionally followed A-level programmes.

419. The third task is to reinforce that greatly by strengthening the role of the FE sector. There is a parallel here with the community colleges in the United States. I have often read of companies that have moved within the US saying that the colleges, with their tailored training programmes, have been absolutely crucial in their being able to establish themselves in that new location. In the world of the knowledge economy, it will be the postgraduate level and the sub-degree level that will be critically important — not so much the graduate level, although we shall obviously need many graduates. The FE colleges have a key role to play.

420. The fourth task is to shape higher education so that its output, at both graduate and post-graduate level, matches the economy's changing profile. That may happen at the expense, if necessary, of publicly funded provision of less relevant activity. The higher-education sector must deliver in the relevant areas, and that takes us back to the school system, because the mix of disciplines coming out of schools must match the access requirements of the universities.

421. The fifth task is to tackle adult literacy and numeracy deficiencies more decisively. A couple of weeks ago, I visited one of our community training centres in west Belfast — in fact, it was just off the Shankill Road. I was saddened when I talked to potential joinery trainees who have to spend weeks learning the basic literacy and numeracy skills that are required to enable them to start their joinery

training programmes. What a comment on our society in 2006 that is.

422. The sixth task is to equip the economically inactive in order to make them capable of rejoining the workforce. I am familiar with the role that the job assist centres play, and that type of activity needs to be reinforced. Much good work is being done at the subsequent training stages, but one must determine what is working and what is not working. It is very difficult territory, and one should reinforce the successes and roll out best practice. If we could begin to raise income levels in the way in which the tax change and inward investment would do, we would give people more incentive to go into jobs that pay real wages.

423. Reconnecting people with the world of work, whether they are economically inactive or long-term unemployed, is the best way to draw the margins into the mainstream. That would raise communities' self-esteem and give the hard edge to community regeneration that would ensure its sustainability.

424. The subgroup may say that there is nothing startlingly novel in any of that. We do not need new schemes — we have oceans of schemes. Rather, it is the political direction, the planning capability, the management effectiveness and the professional delivery that make things happen. Success will be down to how we score on execution.

425. Ultimately, the elimination of under-achievement requires a transaction between a pupil and his or her teacher or instructor. In order to beat skills deficiencies in the community, we must identify the need — what the deficiencies are and what occupations are affected — and connect that need to those who are able to provide the relevant training. That is not rocket science — it can be done.

426. The specifics can only be worked out within Government. One could pluck figures out of the air and say that it will take this or that amount of money to achieve. There must be a commitment from Government that the resources necessary to carry out that massive programme will be provided in addition to the Northern Ireland block, independent of any adjustments

that may be made to the block as a result of the comprehensive spending review (CSR).

427. As an earnest of intent, political parties could commit themselves now to setting up a unit in the Executive that would be responsible for co-ordinating the delivery of that comprehensive agenda and ensuring that stretching targets are set; that accountability for their being met is established; that progress is audited; and that causes of failure are identified and corrected promptly. Far too many programmes have been launched, only to be deemed failures seven or eight years later. We cannot afford those long delays and feed-loop periods. Finally, a comprehensive annual report to the Assembly on all those issues must be produced.

428. A key role of the unit would be to interface with the Government's economic-development policy process. I am surprised by the extent to which there seems to be a gap between that function and the education function. They must be closely linked.

429. Implicit in what I have said is that all the functions that relate to education and employment should be held in one Department. Those functions and activities should not be discrete, operating in silos on their own terms and to their own objectives. There must be a holistic vision. Those functions and activities must interconnect if they are to be delivered effectively.

430. That is a massive and exciting agenda. The spotlight must be kept on the totality of that agenda and on its implementation, under strong ministerial direction, in a way in which has not happened in the past. Government is not about thinking about what should be done, but about ensuring that it is done. If Northern Ireland is to provide an environment that will host world-class companies, those companies must be assured that the human resources will be of a world-class standard.

431. I suggest another agenda, which could be subsumed under the general rubric of the business innovation agenda. Although the existing industrial base is unable to deliver the goods in the quantity that we want, it must, nonetheless, be encouraged to make its best contribution to the totality. That requires a step

change in export performance. To say that companies will only be successful if they are competitive is a truism, but, more importantly, they will only be competitive if they master the art of innovation. That means multidimensional innovation right across the board: business models, strategy; product development; processes; materials; management; logistics; and human resources.

432. Nobody can work out what the innovation agenda should be for a particular company; that is a matter for the company and depends on its circumstances, its ambitions and its markets. However, it can be assisted. The role of Invest Northern Ireland is to provide direct assistance or to ensure that the assistance is available elsewhere. I agree with the suggestion that Invest Northern Ireland should be comprehensively reviewed. Invest Northern Ireland should be aware of the extent to which it is making an impact in the areas that I have mentioned and of why it may not be making enough impact, and it should be able to suggest how those deficiencies might be remedied. That is critical.

433. The Industrial Task Force recommended the establishment of a technology centre, probably within the universities, in which the existing facilities should be drawn together, refocused and reinforced. Its aim would be to provide a resource by which companies — particularly small and medium-sized enterprises (SMEs) — could pinpoint their position on the global technology map. They would be able to see where they were in relation to worldwide trends and what adjustments they would need to make to remain competitive. They would also see what it would be nice to do, and what it would be absolutely essential to do. The Industrial Task Force suggested that Invest Northern Ireland should give assistance only to companies that could show that they had undertaken that exercise.

434. The subgroup's first report contained a section on tourism potential. Northern Ireland has a chance to increase tourism revenue from 2·5% of gross domestic product (GDP) up to 6% or 7·5%. That is a considerable contributor to economic growth and performance. As well as that benefit, it also permeates the whole

economy geographically and helps rural regeneration.

435. **The Chairperson (Mrs Long):** Thank you for your comprehensive presentation. I have a list of members who wish to ask questions, and I am sure that other members will express an interest to speak as we proceed. Michelle Gildernew will ask the first question.

436. **Ms Gildernew:** You are welcome, and thank you for your presentation. I have a two-pronged question. Leaving aside corporation tax, can you suggest any specific initiatives in which a one-off investment could make a tangible difference to the economy, particularly with a view to addressing poverty and regional imbalances?

437. Secondly, after yesterday's comments by Ian Paisley Snr, without some kind of a deal on 24 November, do you think that we are wasting our time here? You mentioned the need for strong ministerial input, but we shall not have that if we are relying on direct rule Ministers.

438. **Sir George Quigley:** I was greatly encouraged by the content of the subgroup's report. As to whether a deal is likely to be reached on 24 November, I would put my money on that happening. It was interesting that Dr Paisley, in another part of the interview, said that he thought that business could be done. I shall, therefore, pick up on that remark rather than the more negative comment. If Northern Ireland is going to go anywhere, it needs devolved government. We are motoring along without the necessary momentum or direction. You politicians are the people who can put that right. However, you need the proper equipment and tools for the job. That is why the Industrial Task Force focused on tax, the huge human-resource agenda and the business-innovation agenda. Those are important issues. The task force's written evidence, which the subgroup will see in a few days, contains details on what is perhaps a bold initiative.

439. It is often the benefits trap that prevents economically inactive or long-term unemployed people from getting back into work. That is revolutionary heresy, but why should I not say it?

440. South of the border, there is a much more graduated progression from being on state benefit to getting back into work. If that is a significant factor in getting approximately 120,000 economically inactive and long-term unemployed people back into work, why do we not do something about it? I have heard the matter discussed for at least the past 25 years; we keep on discussing it, but we have not jumped over the hurdle. That would take us into UK Government territory, because it is related to social services payments, and so on, but it would do as much as anything to transform our human resource situation.

441. There is a risk associated with putting more money into local communities to compensate for the fact that they are not in the mainstream of our regional life. The difficulty with that is that money must be continually invested. It is an unsustainable situation.

442. People can be reconnected with the labour market and progressively encouraged up the value chain by having their skills increased and being given the right qualifications. That lifts up a community. It also encourages people not to see opportunities as being limited to their own communities.

443. Once again, I use the example of my visit to the Shankill training centre — I have been all over the place, but that visit was just 10 days ago. People there said that their expectations are limited to within about a half-mile radius of where they live. As far as the labour market is concerned, we want people to feel that the world is their oyster, and that they have as much right to jobs that are five, 10, 15, 20 miles away, as anyone else does.

2.30 pm

444. Furthermore, there should be public transport provision so that people do not have to make three journeys to get to work. Think about people who have been unemployed and economically inactive. They have all the difficulties of getting back into work. One of the difficulties that they have to overcome is the disincentive of moving from benefits to low-paid jobs. Then they have the disincentive of perhaps having to make three journeys to get to

work. Would any of us want to make that kind of effort? It is in such practical areas that we can make a real difference to communities.

445. As momentum gathers, role models will emerge, and people will begin to say that they know half a dozen people who have taken a certain approach that works. Once a person is on a roll, things begin to happen.

446. **The Chairperson (Mrs Long):** There is a long list of members who wish to ask questions, and I am conscious that we might be pressed for time.

447. **Mr McNarry:** It is good to see you again, gentlemen. I hope that the subgroup will be allowed to see you for a third time. You spoke passionately about education. You might be surprised to hear about allegations from normally reliable sources in the Council for the Curriculum, Examinations and Assessment (CCEA) of down-sizing science in the curriculum. I am talking hypothetically, but I suspect that the allegations might prove to be true. How damaging might that be?

448. Secondly — and forgive me if I have misinterpreted you — it seems that all your eggs are in the reducing-the-corporation-tax basket. If the Treasury were to show no desire to treat Northern Ireland differently from any other region of the United Kingdom, would you dismiss the cocktail of incentives that it might offer as useless?

449. **Sir George Quigley:** I will be blunt: it would be absolutely appalling were schools to diminish their efforts on science. That would demonstrate to the wider world that we are not serious about economic development and would reinforce my point that this must be considered holistically. To do such a thing might make good sense in someone's narrow terms, but it is nonsense in wider terms.

450. As to your second question, a cocktail of measures that excludes reducing corporation tax is like purchasing accessories for motorised equipment. The accessories are useless without the motor, because that is what makes the equipment work. A package could be put together that would stimulate the existing industrial base, and

everyone, including me, would be very happy were that to happen. However, that is as far as it would go. It would never take Northern Ireland into the higher league: it would not provide the motor that will get Northern Ireland from where it is to where it wants to be. We are confident that the only way to do that is to participate in the huge global FDI flows that members will read about in my written evidence.

451. For the past 30 years, FDI has been pouring into the South of this island, whose population is four million, with the result that its stock of FDI is now one of the highest in the world. It is amazing — the Republic of Ireland's stock of FDI is twelfth in world rankings that include the US, China, Japan and Germany. The Republic of Ireland's stock of FDI is at least one third of the next six countries above it in the rankings. If 1.5% of all global FDI is going to the South, I want to know why Northern Ireland cannot get a decent share.

452. **Mr McNarry:** Sir George, do you know whether your opposite numbers in Scotland and Wales, if they exist, are making the same representations to the Scottish Parliament and the Welsh Assembly as you are to us?

453. **Sir George Quigley:** I am putting my neck out again, but my guess is that within the next 10 years, Scotland will receive the tax regime we seek. If Northern Ireland does not push for, and succeed in getting it, we will end up asking why Scotland was successful and Northern Ireland was not.

454. Northern Ireland has a much stronger case than either Wales or Scotland. One figure illustrates that: to achieve the same balance between the public and private sector in the Northern Ireland economy, as exists in Wales and the north-east of England, which are not regarded as star economic performers, requires a 43% increase in the size of the private sector. As members know, I am not suggesting reducing the public sector to achieve that balance. That figure demonstrates how much ground must be covered. Therefore, when productivity statistics, and the way in which the productivity gap is developing, are considered, we can hold our heads up and say that Northern Ireland has a

good case, and we should really take it to the world.

455. **Mr Hopkins:** I want to add to that. If I make only one point this afternoon, I want it to be this: the last time that the Industrial Task Force came to the subgroup, I approached this topic from a slightly different perspective than Sir George. However, I have joined him in his campaign, and I applaud his efforts, largely because I spent about 25 years in the front line competing with the Republic of Ireland and other parts of the UK for inward investment. I can say, without anyone disagreeing, that in every case of competition with the Republic of Ireland for major, quality investments, the corporation tax rate was fundamental. I could not emphasise that enough if I were to swear to it three or four times. It is a vital component: do not diminish it. I do not speak for the entire group, but if I had to settle for one thing, I would settle for a lower rate of corporation tax. Everything else would fall into place.

456. I have watched the Republic move forward over the past 10 years, and everything has been given a lift, including the regions. I go to Donegal, the forgotten county, and see investment in roads, infrastructure and the telephone system. Regional imbalance is addressed when we raise the game.

457. I see that from my position as the chairman of the Liganside Corporation. There are now 14,000 people working around the River Lagan. Many of them, although not enough, come from disadvantaged communities. The main reason for that is that the jobs are there, and, after the jobs were introduced, we and other agencies made efforts to ensure that people moved on a level playing field. However, there would have been no point to a level playing field without the jobs.

458. The key factor is to attract quality companies, not low-value-added companies, and not, with due respect, call centres, but companies that really stimulate growth. They will put the pressure on the universities. The universities have money for R&D now, but there is no cluster of companies shaping the demand for R&D in the local economy.

459. **Dr Birnie:** Thank you for coming back to the subgroup. Since we last met, the European Court of Justice has delivered its judgement on the Azores case. What relevance has that to Northern Ireland's position and potential request for a differential rate of corporation tax?

460. Supplementary to that, some say that the Irish Republic has had a low rate of taxation on corporate profits since as long ago as 1958. The Celtic tiger economy only became obvious in about 1988, so there is a 30-year lead time. Are you confident that the process, and thus the effect, would be much shorter in our case?

461. **Sir George Quigley:** I will start with your first point about the Azores case. I have read the very lengthy judgement a couple of times, and I will have to read it many more times to ensure that I am fully abreast of it. As far as I can tell, the European Commission was prepared to accept Portugal's case for reducing the corporation tax for the non-financial intermediation sector but had baulked at doing likewise for the financial intermediation sector.

462. Every case hangs by its own tail: they all have their own circumstances, twists and peculiarities. Interestingly, our argument would not be about the internal UK situation; rather it would be about the fact that the disparity in tax rates between two states that sit cheek by jowl within the European Union is distorting our position. Although we have pretty much all the attributes that would be attractive to international investment, the investment flows are simply passing us by and going to the southern half of the island. Therefore, the European Union is bound to say that that situation needs to be at least considered. There are strong arguments to be advanced. I am not suggesting that this is a walkover, but one would have to mount a very strong case and support it in all kinds of ways.

463. An important element is whether the two Governments will stand shoulder to shoulder to get the change made. It is one thing for one Government to say that they want the change to be made, but it is an entirely different matter for two contiguous Governments to say it. It is important that the Governments can see the benefits to both economies, not through North/

Southery per se, but simply through the interaction that will occur from both parts of the island having buoyant economies. Meaningful interaction cannot occur without that.

464. **Dr Birnie:** What about the 30-year gap in the Irish Republic?

465. **Sir George Quigley:** The Republic was in a peculiar situation. We could discuss this at length, but I think that the kick-in time for a lower corporation tax rate would be much quicker here, because Northern Ireland would not have to overcome a 15% to 20% unemployment rate and huge emigration. There are a number of reasons.

466. **The Chairperson (Mrs Long):** I am conscious of the time, so I ask members to be as brief as possible. Four members have yet to ask questions, and we are drawing near to the end of our time.

467. **Lord Morrow:** Sir George and Tony are very welcome. It is good to see you both.

468. I am sure that you would agree that the basis for economic activity is a stable society that fully supports the agencies of law and order and that does not have to contemplate what happened in Newry, in my town of Dungannon, and what happened to Denis Donaldson and people such as him. We are reassured all the time that they have not gone away, you know. Until we can get past all the nonsense that has been going on for 35 years and achieve a stable society, I suspect that it will be difficult to generate the wealth and economic drive that could bring contentment to the whole country.

469. Sir George spoke about engaging the economically inactive. The unemployment rate is probably the lowest on record, yet the highest influx of eastern Europeans live and work in my town, many — if not all — of whom provide a very useful service. How can we have so many poorly paid jobs and the highest influx of immigrant workers, yet also have the lowest unemployment level on record? The two matters do not tie up. How can that be?

470. **Sir George Quigley:** It is a conundrum.

471. I will start with your first point. I hope that the work of the Assembly will enable us to

go out to the world at large with a dual message that this is the start of a new political era and a new economic era. That would be a powerful message, because there have been many sorties into the outer world to sell Northern Ireland, but something has always happened to bring us back down again. We must decide whether Northern Ireland is going places and whether we have that ambition. If we have that combined political and economic message, we will be unbeatable.

2.45 pm

472. On the second point, unemployment figures have been going down, but the economically inactive figures have been going up. That has been a phenomenon throughout the UK, although it is more severe in Northern Ireland, partly due to the fact that a considerable proportion of the economically inactive give stress as the reason. It is a question of accepting that some of those people are incapable of work, but others could be induced back to employment. It would not be easy, but it could be done.

473. Everyone focuses on unemployment, but we ought to focus on people who are not actively engaged in the workforce. In some Northern Ireland communities, at least half of the working-age population does not work, either because of unemployment or, largely, due to economic inactivity.

474. **Mr Dallat:** Your example of young trainees learning basic literacy and numeracy skills at the centre on the Shankill Road was very touching, and I am sure that that scenario is repeated many times. If we cracked that deficiency, would it attract FDI? Do you agree with Lord Morrow that political stability, greater self-esteem and a lessened likelihood of going back to the past would also attract FDI?

475. **Sir George Quigley:** Yes. Acting on the human side is critical and makes Northern Ireland more attractive. Political stability is also important, because investors are interested in societies that are competent in settling their own problems. Companies know that they will face problems — they face plenty of problems in the Republic — but they are interested in whether their problems will be solved. If we cannot solve our own macro problem, those companies

will think that we will be unable to solve their problems.

476. Potential investors tend to take it for granted that they will get the skills, the infrastructure, and so on. Then they question what their investment will do for their shareholders, and that is where the tax issue becomes critical.

477. **Mr Ford:** Let me add my welcome. You restated your case on fiscal incentives so eloquently that I shall leave that and turn to the financial package that we may receive.

478. This morning, the Business Alliance talked about human skills and what they termed “software”, as you have done. The Business Alliance also talked about “hardware” in the context of infrastructure and physical improvements, but you addressed little of that. Do you think that is important?

479. When considering issues such as a skills package, you also talked about unemployment and about attracting people back to work from long-term sickness. How do we deal with the problem that I classify as “under-employment”, that is, those who work in the low-skills sector of the economy who ought to work in the higher-skills sector, but who may have acquired some comfort in that sector?

480. **Sir George Quigley:** We have not mentioned infrastructure, because, if I were examining the key impediments to growth in Northern Ireland, I would not say that the money that has been allocated for that is a priority issue. Rather, we should examine that budget and consider whether the balance is right. An objective observer, with experience outside Northern Ireland, told me privately that he was surprised at the balance in the proposed infrastructure package and at the extent to which it is still skewed towards education and health and does not focus on economic development. That made me question whether we need to consider the proposed infrastructure budget, because, although it may not require more money, it may be that we need to reprioritise and decide what will increase our attractiveness for investment.

481. One can work endlessly at infrastructure, which is the ultimate great black hole. However,

there comes a point at which the law of diminishing returns kicks in. Let me give you an example: some people are about to sell their house and are told that if they spend £10,000 on it, it would add 5% to the sale price, but that if they spend £100,000, it would be counterproductive. We must get the balance right. I do not wish to controvert anything that the Northern Ireland Business Alliance might have said, but our approach would be more cautious. We want to see what the priorities are and ask whether we can re-prioritise without looking for more money.

482. **Ms Stanton:** You are most welcome. I want to refer to your example on corporation tax in America, particularly with reference to the Republic. The gap between the rich and the poor is growing by the day. The Committee on the Administration of Justice (CAJ) published a report this morning, ‘Equality in Northern Ireland: The Rhetoric and the Reality’, which highlights the problems in the Six Counties. There is a low rate of corporation tax in the Twenty-six Counties, but the gap between the rich and the poor has widened. The Government in the Twenty-six Counties are trying to tackle long-term unemployment through measures that Sinn Féin would support, such as allowing certain people to continue to claim housing benefit until they feel secure enough to get out of the benefit trap.

483. That is to be welcomed; however, there are still winners and losers. The Conference of Religious in Ireland (CORI) has highlighted research that was conducted by the Central Statistics Office in the Republic on the widening gap between the rich and the poor. It compared the incomes of the richest 10% of Irish households against the poorest 10% and concluded that methods could be used to eliminate poverty worldwide. We should think outside the box about what radical changes could be made. That gap will continue to widen if there is no professional help available to create stability in communities and if there is not sufficient regeneration and development in those communities that are being treated like poor relations.

484. I disagree with people who say that we should not throw money at communities without measuring outcomes. I have seen the outcomes

of community regeneration and development, and it should be given the recognition that it deserves.

485. **Sir George Quigley:** There are two issues. First, how do we create wealth? Secondly, how do we distribute it? The Republic is in the beautiful position of being collectively, in national terms, a very wealthy country. It is amazing. In global terms, the Republic ranks highly on GDP per head, and absolute poverty has diminished. However, you are quite right; the gap between the rich and the poor has widened, including in the UK.

486. The challenge for any rich society is how to spend its wealth, which leads into issues such as taxation and redistribution policies of all kinds. Eleven per cent of the Republic's tax yield comes from corporation tax, whereas in most countries, it is fewer than 7%, which demonstrates the contribution that corporation tax makes to the wealth of the Republic.

487. Let me paint a scenario for Northern Ireland. Let us suppose that we had that kind of wealth machine in Northern Ireland plc; let us suppose also that the Treasury subvention started to come down, as it should, on all the usual phenomena. The tax take has gone up in 11 of the 14 Organisation for Economic Co-operation and Development (OECD) countries that have reduced their tax rates. If the Treasury subvention started to come down, how much more strongly would Northern Ireland be placed to go to the Treasury and make an argument? I would love to be in the delegation that goes to the Treasury to say that we have put our house in order, and that the wealth machine is going through the tax change, for which we thank you, and you, oh Treasury, are now reaping the benefits of that. I would say that I am here to talk very toughly about how Northern Ireland can get more public expenditure to deal with the relevant issues.

488. We will be in a far stronger position if we can do that standing on the high moral ground, instead of going along, cap in hand, and pleading for some miserly addition to Northern Ireland's public expenditure block. I would love to be there on the day that that happens.

489. **The Chairperson (Mrs Long):** Thank you. There is one final question — a second one

from Edwin Poots. Please keep it brief because we are running over time.

490. **Mr Poots:** It is my first question, Madam Chairperson.

491. **The Chairperson (Mrs Long):** You were on my list. Were you called?

492. **Mr Poots:** No.

493. **The Chairperson (Mrs Long):** My apologies. It is your first question.

494. **Mr Poots:** I will be relatively brief, nevertheless. Sir George, you are very welcome. You make a very strong and concise case for the rate of corporation tax to be reduced. You made that case with great clarity. However, that is not to say that the Treasury will accept that case. Do you have a fallback position? If not, and if the case is of such importance to the Northern Ireland economy — and if we in this room were agreed — should we hold out and state that we are not setting up an Administration until we get that issue resolved?

495. **Sir George Quigley:** It is always very comforting when one's medical adviser tells you that he or she will give you the best advice possible and that if he or she were in your shoes, this is what he or she would do.

496. **Mr McNarry:** Esmond wants to know whether you will join us on the barricades.

497. **Sir George Quigley:** Frankly, If I were in your shoes — given that, as a member of the Executive, I would have to carry the can in the future — I would simply not be prepared to undertake that responsibility, knowing what lies ahead, unless I were given the corporation tax weapon.

498. There is no more buoyancy in the public sector. One might get the gap between Great Britain and Northern Ireland up from around 80% — one might get it to 81% or 82%. That may slip down again as public expenditure slackens off, so we would still be teetering at around 80% for the next 10 to 20 years. The population would then ask members of the Executive what they are doing, what differences they are making and what value they are adding?

499. I would dig in and say that getting the economics right is as important as getting the politics right. I think that you will win it on that basis. There is a very strong case to make, and you, as politicians, are as entitled as any other politicians in these islands to tell the Government that you have to watch your political backs. When you come into office, the Government will be over the hills and far away, having told you to live within the block grant. I would dig in and I think that I would get the reduced rate.

500. **Mr Hopkins:** Just a final word, if I may. This morning, I was thinking that we have a choice, perhaps, economically, of being a South Korea or a North Korea. I do not say that jokingly. All my children are back home and are bringing up families here, so I hope that we choose to be a South Korea, and I hope corporation tax will give us a chance to do that.

501. **The Chairperson (Mrs Long):** Thank you, Sir George and Tony, for your presentation and for answering members' questions. This has been a very useful session for the subgroup. We appreciate your coming along and giving us your time and experience for the second time during this process.

502. **Sir George Quigley:** Thank you very much, Madam Chairperson. I was grateful to you for not suggesting that the answers should be shorter, as well as the questions. *[Laughter.]*

503. If there is any further help that we can provide, we will be only too delighted to do so.

504. **The Chairperson (Mrs Long):** Thank you. We look forward to receiving your written submission.

The Subgroup was suspended at 3.00 pm.

On resuming —

3.12 pm

505. **The Chairperson (Mrs Long):** I am aware that a number of members have other engagements and must leave at around 4.00 pm, which will make it difficult to work through the rest of the agenda. Therefore, we should concentrate on getting the evidence on the record as quickly as possible. If members could make the effort to stay at least until all the evidence has been received, we can consider how to deal with the remainder of the agenda.

506. On behalf of the subgroup, I welcome Mr Liam Nellis and Mr Aidan Gough from InterTrade-Ireland. Gentlemen, thank you for attending. It was intended to allow 45 minutes for each presentation. However, given the time constraints, presentations will be restricted to 30 minutes. It will be appreciated if your opening statements are kept as brief as possible, to about 10 minutes, to allow more time for fuller questioning.

507. **Mr Liam Nellis (InterTradeIreland):** Thank you for giving us a second opportunity to talk to the subgroup on the economic challenges facing Northern Ireland. We have looked at the paperwork that came out of the first round of discussions, and it is coming together well.

508. We have been asked to give further evidence on several issues that the Committee Clerk identified, such as infrastructure, education and skills, community regeneration and fiscal incentives. We shall talk a little bit more about some of those than others — given our all-island perspective, it might not be appropriate for us to talk in detail about fiscal incentives for Northern Ireland. Although we do have some ideas on the matter, we shall focus mainly on education and skills and on infrastructure.

509. First, I welcome the subgroup's conclusion in its first report that:

“there are no economic borders in the global market and that, where possible, all practical initiatives should be explored to examine the mutual benefits of enhanced collaboration and market exploitation”.

510. There exists a broad scope for co-ordination in the public service and in infrastructure delivery on the island. An economic peace package or dividend could contribute to economic regeneration.

3.15 pm

511. A significant element of any peace package or dividend should be ring-fenced for initiatives, such as those that we shall outline later, to improve the flow of economic resources across the island for the mutual benefit of all.

512. However, before we address those issues, I want to draw the subgroup's attention to the work of the British-Irish Intergovernmental Conference (BIIGC), with which we have been closely involved in a secretariat capacity. The conference has identified several of the same issues that we shall consider today: infrastructure; labour-market and skills development; science, technology and innovation; the promotion of trade and investment; and enterprise and business development. Those are the areas on which the conference is concentrating. At the conference's meeting in July, it was agreed to pool resources in trade promotion — specifically to try to bring more synergies to trade missions, North and South. It agreed an all-island approach to labour and skills forecasting that recognises that a skilled workforce is a vital resource for a globally competitive economy, North and South. The conference wants to organise work to identify skills gaps and how those might be addressed. The conference pushed for a new, all-island approach to international collaboration on science and technology. At our previous meeting with the subgroup, we talked about what we are doing with the US-Ireland Research and Development Partnership. InterTradeIreland is pushing hard for an all-island approach to business development through collaboration and network clusters.

513. Our view of all-island competitiveness is pragmatic: we want to use the resources across the island to the mutual benefit of everyone on the island and to drive success in global markets. Such co-operation, if strategically organised, could give mutual advantage in lower costs,

higher levels of innovation, higher productivity and greater wealth creation across the island.

514. The main economic resources at the disposal of Governments — North and South — are primarily the people and the physical and institutional infrastructure. Investing in those resources sensibly over the next few years will pave the way for the development of a sustainable and equitable economy on the island for the next 20 years. Collaboration is important in attracting and retaining those resources. Each jurisdiction faces a common set of challenges that are unbounded by geography; each has developed a separate, but largely similar, response to those challenges. However, we feel that there is an imperative to develop some form of complementarity that enhances the competitiveness of both parts of the island.

515. People and infrastructure are the two key resources. Both have been highlighted by the subgroup, and we have addressed them from an all-island perspective in some of our reports. We feel that it would be appropriate to emphasise those two areas first.

516. A significant element of any economic package or peace dividend could be ring-fenced for initiatives that will improve the flow of resources across the island to mutual benefit. Where the public sector is a provider of goods and services in both jurisdictions, there is likely to be much greater opportunities for co-ordinated action.

517. The effect of low-cost competition from within the EU and further afield means that, to be successful, firms will have to rely increasingly on the superior skills of their workforce. Given the productivity gap in Northern Ireland, to which we referred in the previous meeting and which is 86% of the UK average, the economic package will have to address the skills deficiency. Managerial, sales and marketing and technical absorption capabilities must be addressed as part of that deficiency. At company level, one approach that we hope to pilot in the near future is the extension into Northern Ireland of the business-led training networks that are being developed so successfully in the Republic

through Skillnets Ltd. Indeed, we are talking to that group at the moment.

518. On a wider level, a recent report that we commissioned — ‘Engineering a Knowledge Island 2020’ — highlights the requirement for collaboration to ensure that people on the island are equipped with the necessary skills to drive competitiveness in a knowledge-based global economy. The report, which we commissioned but which was carried out by the Irish Academy of Engineering and Engineers Ireland, sets a target for the island to be in the top five global economies for income per head by 2020. That represents quite a challenge. The report also believes that we can achieve that through a 4.5% per annum growth rate until 2020 and that the creation of a “knowledge island” should be adopted as a feasible target.

519. Achieving those targets will require much closer collaboration in fulfilling people’s economic and skills potential. Qualified engineers, IT staff and those with PhDs are of key importance in the development of world-class centres of research. However, to improve human capital in Northern Ireland, the so-called brain drain of non-returning students needs to be stemmed or reversed by increasing the number of local university places.

520. Collaboration between the expert skills groups of both jurisdictions is ongoing, and we encourage the development of an all-island approach to skills forecasting. The key points of that are that: future success in the tradable services sector will rely on superior skills; business-led training networks such as Skillnets Ltd are important; we need to increase the output of qualified engineers, IT staff and PhDs; we need to increase the number of university places; we need greater policy collaboration on areas to do with in-migration; and we need to collaborate in the development of world-class centres of research.

521. We also commissioned the recent report ‘Spatial Strategies on the Island of Ireland’. The International Centre for Local and Regional Development worked on that report, which articulates the vision of where:

“all citizens throughout the island will gain from access to better markets, higher quality

public services, economic growth and reductions in regional disparities.”

522. An economy that has the capability to innovate, compete and adapt successfully will create win-win outcomes for Northern Ireland and the Republic of Ireland. The island is embarking on a demographic growth path with a trajectory that indicates that the population will be almost seven million by 2021 and eight million by 2031. Therefore we need to have a much higher-level framework for collaboration than merely spatial and strategic planning. We could: inform future investment programmes in both jurisdictions; maximise the synergies between the different aspects of our investment programmes; underpin a balanced regional competitiveness; and reposition and re-image the island as a globally innovative and competitive location.

523. The report concentrated on some key areas, which I will go through again quite quickly, given the time constraints. The report talked about infrastructure, particularly road and rail, and the City of Derry Airport was identified as a particular area for further collaboration.

524. Telecommunications, particularly an improved connectivity for broadband and mobile across the island were mentioned in the report. That has been largely sorted out in the North, but we need to get it rolled out further. Co-operation on energy was also discussed, as was developing cross-border planning corridors for areas such as Newry and Dundalk, Derry and Letterkenny, Enniskillen and Sligo and Omagh and Cavan-Monaghan. The report talked about tourism initiatives, waste management and so forth.

525. Broad agreement exists on the requirement for a cross-border road infrastructure, particularly on the Belfast to Dublin corridor. One potential problem is that the resources that have been committed to transport infrastructure in Northern Ireland are significantly less — measured by proportion of total spend — than those that are available under the National Development Plan in the Republic.

526. A table in our paper shows that the investment pot in the two parts of the island is

divided quite differently. In the South, 38·1% is spent on transport; in the North, 15·7% is spent on transport. There is more alignment in the South, where there is an integrated transport system. That reflects the greater priority given in the North to the social infrastructure, and it also reflects a difference in historical endowments. However, if the issue is not addressed, it will slow down the implementation of co-ordinated road provision.

527. Both spatial plans recognise the importance of the city of Derry to the development of the north-west region, including Donegal. A precedent has already been set, in that the Irish Exchequer is part-funding the City of Derry Airport, based on the fact that it also provides a service to Donegal people. However, the decision to upgrade the road from Belfast to the city of Derry is probably the most important measure that could be taken in infrastructure terms to enhance the growth prospects of that region. The Secretary of State announced recently that the A6 road from Derry to Dungiven will be dualled at a cost of £250 million, and work will begin within 10 years. Dualling is also planned for the road from Castledawson to the M22. Further benefits could be realised if the road from Dublin to the city of Derry were upgraded. We will push strongly for the stretch of that road that runs south of the border to be improved as part of the South's National Development Plan.

528. InterTradeIreland's remit does not include health, but there are several possibilities for collaboration on health issues — for example, on hospitals, the infrastructure and healthcare provision. Altnagelvin Hospital could be a regional hospital for the entire north-west, and, given that the new southern regional hospital will be located near the border, it could have a cross-border catchment.

529. Electricity is another area that has been moving forward at some pace. Both Governments are committed to a single wholesale electricity market by July 2007, and we feel that, over time, that will remove market distortions and help to reduce the wholesale cost of electricity.

530. Many issues constitute a win-win situation. The key points about infrastructure

are: there should be a high-level framework of collaboration between the two planning authorities on spatial and strategic infrastructure plans; the Dublin to Derry road link should be a priority; there should be an integrated plan for key health service facilities in the border regions; and the energy needs of the island might require additional investment, perhaps in the shape of a second east-west electricity interconnect to Britain. That might be built from the Republic to Britain, but the entire island would benefit.

531. Borders represent the interface between national, economic and social systems. Borders tend to break down natural hinterlands. In Northern Ireland, economic activity is currently concentrated in the Belfast metropolitan region. In order for sustainable development to occur in Belfast and, more particularly, across Northern Ireland, spatial planning must provide the basis for the economic regeneration of communities outside Belfast. The Regional Development Strategy for Northern Ireland recognises that and has prioritised the strengthening of the city of the Derry as the hub of the north-west.

532. In addition to that, Newry and Enniskillen, two of the three urban centres that the strategy identified as having major inter-regional development roles, are located in border regions. The adoption of an all-island approach to policy development could put border counties in the centre, rather than on the periphery, of a new functional all-island economic area and would help to regenerate those border communities. The development of the Dundalk to Belfast and Derry to Letterkenny corridors, as well as the Dundalk to Sligo corridor, with links to Armagh, Cavan, Monaghan, Enniskillen and Omagh, should be prioritised, as that would significantly benefit border communities.

533. InterTradeIreland does not have a detailed remit on fiscal incentives, but we want to say something about that. Our strategy has been to try to develop all-island sectoral networks in a range of areas, and we feel that, in the shorter term, the financial-services sector could benefit Northern Ireland quite significantly. We undertook a review of the all-island financial services

sector and found that the industry contributes £5.5 billion to the economy, North and South, and employs more than 93,000 people, 80% of them in the Republic.

534. However, in the Republic, the sector has benefited from the establishment of the International Financial Services Centre (IFSC) by the Irish Government in 1987 in Dublin docklands. At the time, it was thought to be a bit of a white elephant, but it is now a leading location for a range of internationally traded financial services. The IFSC is host to half of the world's top 50 banks and half of the top 20 insurance companies.

3.30 pm

535. Recent data suggest that, in 2002 alone, the Irish Exchequer collected more than €700 million from IFSC companies in corporation tax. Twenty thousand people work in the IFSC, and more than 430 international companies are approved to trade there, with a further 700 managed entities approved to carry out business under its auspices.

536. With a very strong political leadership and goodwill, that model could be replicated in or extended to Belfast, and that would bring obvious benefits to Northern Ireland and would help the sustainable development and growth of the IFSC in Dublin, which has issues of overheating, and so forth. The idea should at least be explored in the current context of preparing for Government.

537. **The Chairperson (Mrs Long):** Thank you very much. Members, we are extremely short for time. Five people have indicated that they wish to ask questions, and we have roughly seven or eight minutes available. I ask members to put their questions as succinctly as possible and not to make long statements.

538. **Mr Ford:** Welcome, gentlemen. The subgroup has been looking at prioritising areas of investment. You talked about ring-fencing social capital and infrastructure investment — what is the balance between those? If the subgroup were to consider replicating the IFSC in Belfast, what timescale would be involved?

539. **Mr Nellis:** As regards the balance between the economy and social capital, we are talking more about barriers to developing an all-island economy. I would push much more strongly for creating the environment for a better economy, as that would increase the social advantage of people who come into contact with it.

540. One follows the other. We should concentrate initially on rolling out any dividends to the peripheral areas on both sides of the border that have been starved, not only for the past 20 or 30 years, but since partition. There is a clear case for rolling out infrastructure across the border to get those economies moving again, and the spin-off would help local communities.

541. In Dublin, the IFSC was thought to be one of Charlie Haughey's more hare-brained ideas at that time. People thought it would never work, and getting any kind of investment for it was very hard. My chairman, Dr Martin Naughton, was one of the first private investors to put money into it. He was very happy to have done so, and there have been spin-offs and benefits from that. What was an idea in 1987 has proved its worth less than 20 years later.

542. Replicating the IFSC would take a bit of time to get going. However, such an idea could attract significant private finance. With public finance added to the mix, it could be up and running in the next few years.

543. **Mr McNarry:** I am indebted to Liam and Aidan for their presentation. I am grateful to them, and wonder whether we, as a subgroup, can pick up on it. With the greatest respect to everyone — and I hope that they will be sensitive to my views — political alarm bells are sounding in my head with reference to the subgroup. I have genuine concerns, and I feel that we should ask the Secretary of State for a full report and details of the Government's activities and their remit arising from the BIIGC and of the aspect of further economic collaboration in areas of mutual benefit. I can see where it is mutually beneficial to —

544. **The Chairperson (Mrs Long):** Mr McNarry, I am sorry to interrupt. That is a

matter that we can address later. Given the time constraints, do you have a specific question for InterTradeIreland?

545. **Mr McNarry:** No. Will you allow me to address that point? It is extremely important.

546. **The Chairperson (Mrs Long):** Could we address it in our closed session? It would allow us to get the evidence.

547. **Dr Birnie:** In the table on page 5 of your statement, Liam, you seem to be implying that the percentages of investment should be much more similar between the Republic and Northern Ireland.

548. I put it to you that that may or may not be the case. However, it may be that people in the two jurisdictions have chosen differently, so why should they be similar?

549. My second question relates to the IFSC. Why does investment in Northern Ireland run at only 20%? What has gone wrong, or, to put it another way, what has gone right south of the border?

550. **Mr Nellis:** On the first question, the two jurisdictions have chosen to invest their money in different areas. My point is that if we are serious about developing a coherent and co-ordinated infrastructure strategy, there must be a little alignment in funding. That is not to say that there are not different priorities for the Governments on the two sides of the border. For example, the Governments clearly have different priorities for the public sector: in the North, it is about the Review of Public Administration and rationalisation; in the South, it is about decentralisation. No one is saying that everything should be the same but, to capitalise on the potential benefits of North/South synergies, there should be a little more alignment in those areas.

551. On the second question, the difference between the IFSC garnering 80% of the investment on the island, compared with 20% in Northern Ireland, is the fact that the Southern Government went for it. The Government put their money where their mouth was and put the infrastructure in place. That, in itself, created a cluster, which generated more activity, and so on. A snowball effect was produced.

552. **Ms Gildernew:** Gentlemen, you are very welcome. Can we attract the IFSC and the level of investment that we need without changing the rate of corporation tax? As you said, the financial-services sector in Dublin is overheating. We have the skills, accommodation, and so on, here, but if corporation tax is not addressed, can we still attract investment?

553. Your statement is very good. The Business Alliance gave evidence to the subgroup this morning and made a similar recommendation that money should be sought from the Twenty-six County Government to invest in infrastructure, particularly roads — especially the Dublin to Derry road, which runs through my constituency. Members knew that I would mention my constituency sometime. *[Laughter.]*

554. However, there are definitely tangible benefits to be made from asking the Twenty-six County Government for help. Can you suggest any specific, one-off initiatives, such as a fiscal package, that would help to turn around our economy?

555. **Mr Nellis:** Tax is one issue that has attracted companies into the financial-services sector, but the availability and concentration of skilled labour and the attraction of a quality destination were major contributing factors. That could just as easily be created in Northern Ireland, and there would be a spillover effect. The Southern system would welcome that spillover into the North, creating a greater island cluster, rather than that spillover leaving the island.

556. Given my position in a North/South body, it is not for me to comment on whether there should be alignment or parity on tax. From a business perspective, however, I would be happy if tax were to be reduced. It would help to attract some high-profile investment here, but it would not be absolutely critical.

557. To answer the question on infrastructure, the precedent has already been set with the City of Derry Airport, which has been mentioned at different events by different officials, North and South. I have attended meetings to discuss the Donegal area. For the Southern Government, Donegal is certainly one of their greatest

difficulties and highest priorities. Donegal comes top in all measures of deprivation, even coming above inner-city Dublin. The Government have a significant imperative to get economic activity into Donegal. It is not as if it would be a handout; it would be of great benefit to the Irish economy to regenerate Donegal.

558. The timing is right, but the best way in which to regenerate Donegal would be to improve the corridor through Ms Gildernew's constituency, which she mentioned, and also by improving the traditional road.

559. **Mr Aidan Gough (InterTradeIreland):** To follow on from that question, and Dr Birnie's, the impact of corporation tax on developing a centre similar to the IFSC in Belfast docklands would be to speed the achievement of that centre greatly. There is no doubt that it hastened the achievement and growth of the IFSC in Dublin, but there are other variables, such as the telecoms infrastructure and skilled labour, and many of those are in place.

560. The second issue relates to prioritisation of initiatives. Collaboration and taking an all-island dimension is a source of competitive advantage: it is not the only source, but it is a new source, and we should exploit that.

561. **Mr Dallat:** I was glad to hear you mention the word "rail" — I think it was the only time that it was mentioned — and tie it in with the City of Derry airport. The case was made that Donegal, and probably Sligo, benefited from investment from the Republic. Is there a case to be made for the Southern Government's investing in the Belfast to Derry railway? It would also complete its own rail strategy for the island of Ireland, and in particular the west, where rail transport has been sadly neglected on the southern side and in the North — both neglected and a victim of the troubles.

562. **Mr Nellis:** If members were look back at any map of railway infrastructure on the island one hundred years ago, they would see a complete network of railways — north, south, east and west. Unfortunately, that was allowed to fall away, and it would be take significant investment to reclaim it. Whatever shape the Government take, they will need to prioritise,

because they cannot do everything. If they want a good, strong road network, they will not have the investment to put into the rail network as well. It is up to people like yourselves — if and when you go back into the Assembly — to take those hard decisions. In value for money terms, getting the network up and running to move goods and services by road would be considerably easier and more cost effective in the short term. However, if the money were available, I would encourage an all-island rail network.

563. **The Chairperson (Mrs Long):** That concludes the questions. Thank you very much; your presentation has been very useful. Thank you for your co-operation in sticking to time, and I apologise for the delay. Thank you for your written submission and for your time and effort this afternoon. If members have any questions, I am sure that they will contact you.

564. **Mr Nellis:** Thank you very much. If members would like us to follow up in writing or by telephone, I will be happy to assist.

565. **The Chairperson (Mrs Long):** The next presentation is from the Planning Service, and its representatives are Mr David Ferguson, Mr Tom Clarke and Mr Pat McBride. Thank you for attending and giving evidence to the subgroup, and thank you for your patience: we are well behind our scheduled time. The subgroup has about half an hour to hear your evidence. However, could you keep your initial opening remarks brief, so that we can tease out additional issues during the question-and-answer session?

3.45 pm

566. **Mr David Ferguson (Planning Service):** Thank you. Pat McBride is our operations director and Tom Clarke is the strategic plans and policy director. The subgroup received our paper some weeks ago. I have three quick sets of points about context and our experience of the planning process and the planning system that I would like to make before we get into discussion.

567. First, with regard to context, I think it is important to bear in mind the pressure on the agency from the well-documented increase in applications in the past number of years, which

has far exceeded forecasts. The Planning Service also has ministerial commitments to an ambitious programme of area plans and policies.

568. Secondly, the planning system has become more complex because of EU directives, legislative changes and case-law precedents, and the increase in interest and involvement in the planning process from a wide range of organisations and individuals, who, almost invariably, have conflicting views.

569. Thirdly, as well as trying to keep the show on the road and respond to demands, the Planning Service has had to work through an ambitious modernisation programme that involves legislative, administrative and process changes. It has also begun to prepare for the implementation of the Review of Public Administration (RPA), which will see the Planning Service out of existence in less than three years' time.

570. Fourthly, at the heart of the modernisation programme, there are two objectives — speed and transparency — that pull us in opposite directions. Everyone wants the Planning Service to make quick decisions. However, more and more people want to know how those decisions are made and to have their say in the outcome.

571. That was a quick thumbnail sketch of the context in which we believe any debate about the planning process should take place. Concerns about the process are well known to the Planning Service and have, indeed, been well documented. They have been reflected in the subgroup's report and in its recommendations. We have had only a quick chance to read the report and the evidence that was submitted. I want to summarise those concerns, if I may.

572. There are general concerns that the process is slow and unresponsive and that it is a deterrent to investment. There are also specific concerns, in particular the need to review, streamline and have adequate resources and tighter controls over response times by our key consultees.

573. The Planning Service recognises those concerns. It agrees with much of the broad thrust of the report's recommendations and has, it believes, responded to them. That is critical. Before I elaborate on how the Planning Service

has responded, I want to explain the profile of our operational work.

574. Some four fifths of our business is bread-and-butter stuff — small house extensions, single dwellings and small housing developments. Those applications comprise about 80% of the Planning Service's business. Around one fifth of our business covers applications that might be classified as major — big retail developments, significant infrastructure projects, and so on, of which only a small proportion is truly regional.

575. The Planning Service does not dispute that the overall process is slow. We could discuss the reasons for that. However, with regard to economically significant projects, which we assume are at the heart of the subgroup's interests and concerns, we believe that the picture is not as bad as it has frequently been painted. For example, the planning requirements of the Investment Strategy for Northern Ireland — one of the mainstays of the Government's drive to prime and support the expanding economy — are being met. We work with our Strategic Investment Board (SIB) colleagues to ensure that the planning process continues to support that programme in a timely way.

576. In other areas, Belfast City Council recently published figures that show that 93% of all developments in the city during the past four years have received planning permission within, on average, three and a half months. Planning permission for other major private sector projects — Coca Cola's all-island distribution centre; Bridgewater Park, a major development outside Banbridge; the North/South gas pipeline, and so on — has also been granted quickly.

The Subgroup became inquorate at 3.49 pm.

On resuming —

3.55 pm

577. **The Chairperson (Mrs Long):**

Members, we are now ready to continue taking evidence. I offer the witnesses from the Planning Service our apologies. Please continue.

578. **Mr McNarry:** I have a problem in my constituency that I must deal with. I needed to make a couple of phone calls.

579. **The Chairperson (Mrs Long):** That is all right. Please continue, Mr Ferguson.

580. **Mr D Ferguson:** Perhaps I could pick up from the general points that I was making: the context of our work, the profile of our operations, what we treat as major and what we do not. We do not dispute that the overall process is slow. However, we do not believe that the picture with major applications is as bad as it is painted. I gave examples to show that, ranging from the investment strategy through to specific private-sector projects.

581. We acknowledge, however, that perception is as important as reality, and we have responded to that with significant internal changes at headquarters. They are aimed at providing a sharper focus on the effective management and processing of economically significant applications, placing more emphasis on pre-application discussion with, and advice from, an internal, multi-disciplinary group of planners, roads engineers and so on. We work with consultees, especially the Environment and Heritage Service (EHS), which, as I said, acknowledges that there are problems with its response times. That is not in dispute.

582. We recognise too that certainty is very important for prospective investors. On the area plan side of our work, we deserve greater recognition, if not credit, for what has been achieved. Just under 80% of the region's land area, containing over 70% of the population, is now covered by up-to-date draft or fully adopted area plans. Work is in hand to secure coverage of the remaining five district council areas over the next couple of years.

583. I have just a few brief concluding remarks. There is a wider debate about public confidence in, and the performance of, a planning process that the Planning Service has a clear responsibility to manage, but over which it does not have complete control. There is also a wider debate about a process that is growing in complexity and that has at its heart two objectives: speed and transparency, which are almost invariably in conflict. We want to promote, and are happy to be involved in, a balanced and informed debate about improving the system, starting with recognition of its conflicting objectives and of the fact that everyone involved, including us, has a part to play in its efficiency and effectiveness.

584. In the meantime, and in the context of the subgroup's first terms of reference, we are trying to respond to its recommendations and the critical role that planning has to play in the expanding economy by completing the suite of up-to-date area plans; continuing to sharpen our focus on the effective management and processing of economically significant applications; putting more emphasis on pre-application discussion and advice; and working with key consultees on service level agreements.

585. **The Chairperson (Mrs Long):** Thank you for that presentation. We appreciate the information that you have provided. I ask members to be brief and succinct.

586. **Ms Gildernew:** I am sure that that is not directed just at me. *[Laughter.]*

587. It is good to see you again. I will begin with a declaration of interest. Many fine people work in the Planning Service, my sister among them.

588. My constituency must contend with highly competitive neighbours. Towns such as Carrick-on-Shannon and Monaghan are frequently nipping at our heels in relation to private investment. People who want to develop or expand businesses often cannot do so because of planning restrictions and the slowness of the planning process. The backlog is causing huge difficulties in Enniskillen and Fermanagh in particular. Does the Planning Service intend to employ extra people to deal with the current

backlog and to get to grips with the problem that impinges on development and expansion?

4.00 pm

589. **Mr D Ferguson:** The Planning Service has no immediate plans to put in place extra resources, because they are not available. Planners, especially good, experienced planners, do not grow on trees; they require a certain amount of training and experience. Therefore, we do not have the resources for a quick fix.

590. However, as I said in my presentation, we are trying to sharpen, and have been significantly sharpening, the focus on the big projects that pump-prime the economy. Other smaller bread-and-butter applications have got in the way, and we are tackling that separately in a different way. Our view is that we should focus our effort, both at headquarters and throughout our divisional network, on the big projects, and that is what we are doing.

591. **Mr Pat McBride (Planning Service):** I am conscious that Draft Planning Policy Statement 14 has resulted in specific problems, particularly in two divisions, where there has been an influx of single-dwelling applications, and we are trying to manage that. I do not want to go into the nitty-gritty but, as David rightly says, it is difficult to attract experienced, qualified staff into the system. However, I am not sure that that is the solution.

592. Our internal mechanisms, particularly those applicable to divisional managers, prioritise key applications, not only the high-level ones that David mentioned, but the significant localised commercial and industrial applications. Those mechanisms are already in place, and were drawn up in response to the large increase in single dwellings in the countryside.

593. On a more functional level, Tom and I work together closely to see how the available resources can best be used to fill gaps and deal with the appeals process and so on. Currently, there are 1,200 live appeals. We attempt to manage those as far as we can with the available resources and by working together to recognise pressures and achieve results, particularly in relation to commercial development applications.

594. **Mr Tom Clarke (Planning Service):**

Part of our message to the subgroup is to acknowledge the general slowness in the process. However, perception within the Planning Service is that there are certain applications, such as commercial applications, that must be monitored and kept moving through the system, even though other applications are also in the system.

595. **Mr D Ferguson:** Could I just add to that and stress the point that I made in my presentation? Part of the slowness is due to the sheer level of demand. However, it can also partly be attributed, in different ways and to varying degrees, to all participants in applications — from a large retail application to the smallest house extension. Every participant has the capacity to speed up or slow down the process, according to taste. It is extremely important to remember that the slowness does not derive only from the sheer volume of work; it derives from the quality of applications, the strength of opposition and so forth.

596. **Mr Dallat:** The existing influx of applications will disappear. What future plans does the Planning Service have to engage more fully with economic recovery? To give an example of what prompted my question: as members know, there is a campaign to identify all small businesses in the countryside that have existed for 20 or 30 years without planning approval. In my constituency, that applies to the wee filling station in Garvagh that has had a Maxol sign for 40 years for which it has no planning approval.

597. The Planning Service is probably the last organisation that I know of that does not have to answer to anyone. In fact, it does not even have to answer its telephones.

598. **Mr D Ferguson:** What is your question?

599. **Mr Dallat:** Sorry, that is fairly typical of what happens. My question is: where is the interrelationship between people like ourselves, who want to regenerate the economy, and the Planning Service, which must have the flexibility to do that in an open and accountable way? The Planning Service must not operate in a manner that is contrary to how, for example, the

Department of Agriculture and Rural Development operates. What plans does the Planning Service have to talk to the Departments that are engaged in economic development?

600. **Mr T Clarke:** The overall answer is that every Planning Service policy has been through a consultation process with all the Departments — there is no policy that has not been through such a process. That consultation is part of our normal procedure.

601. For instance, recent draft planning policy statements such as Draft PPS 14 and Draft PPS 5 were passed to Departments for comment before being published and placed in the public domain for public comment. Therefore, there is integration at a policy level — for example, a policy that deals with rural businesses will have been through a consultation process. Likewise, the Planning Service is producing area plans that zone areas for industry, which will also be subject to an internal Government consultation process before being put out for external consultation. There is full integration at that level too. Thus, there is full Government awareness of policy and zoning plans. There may well be some differences about the minutiae of policy, but there is certainly co-operation and consultation prior to publication.

602. **Mr McBride:** Just to clarify; Mr Dallat, you mentioned a campaign against rural businesses. I am assuming that your experience is that the Planning Service exercises enforcement functions when it thinks that it is expedient to do so. There is no campaign as such.

603. **Mr Dallat:** It is partly that. Take the businessman in the rural area who runs two or three buses —

604. **Ms Gildernew:** Or woman.

605. **Mr Dallat:** My apologies. I was using the word “man” in the biblical sense.

606. The small rural bus provider, who provides a service to rural people because there is no Translink service, cannot get planning approval to park buses. That is only one example. Small garages that are servicing farmers are told that they must close down because the Planning Service has discovered them. Draft PPS 14 has

taken care of the human element; there will be no more planning approvals in that respect. I can see Jim Wells smiling about that.

607. **Mr McBride:** This is not meant to be a fudge, but I do not know whether you want to go into the details. We have our own priorities and responsibilities in relation to enforcement, if that is what is being said.

608. **The Chairperson (Mrs Long):** These issues are perhaps better addressed on a one-to-one basis, although I understand their relevance to economic development.

609. **Mr Dallat:** Chairperson, I was trying to connect the Planning Service with economic development, but I admit that I have failed miserably.

610. **The Chairperson (Mrs Long):** Thank you for that admission.

611. **Mr Ford:** I welcome the gentlemen here today.

612. I acknowledge that there has been some significant improvement in the backlog, particularly in the area-planning process. Of course, Edwin Poots and I were on the Committee for the Environment and got the Planning Service some additional resources, so we can take credit for that.

613. Half of my constituency is in the Belfast Metropolitan Area Plan (BMAP) and the other half is in Antrim, Ballymena and Larne — and I shall not ask any rude questions about that. You have talked about economically and socially significant applications, and I do not dispute that key schemes have gone through reasonably well. However, I am concerned about Pat McBride’s comments about small-scale schemes. A small workshop that provides four or five jobs or a farm diversification project that underpins a couple of jobs are actually very significant applications. Some 40 such schemes could create the equivalent number of jobs that were lost at the Daewoo Electronics factory in Antrim last month. Some of those schemes are not strategic in any sense, but are nonetheless very important to small businesses. Those schemes are getting lost in a welter of patio

doors and single dwellings. How is the Planning Service endeavouring to deal with that?

614. **Mr D Ferguson:** That is a fair point. Pat McBride has already mentioned this, and perhaps he will say a bit more about it. However, at the divisional level, the bigger projects that I mentioned are managed in two ways.

615. First, the regionally significant ones are handled directly by a special unit at headquarters. If an applicant seeks advice early in the process, the unit can carry out much of the work beforehand in co-operation with professional people from other Departments, such as the Roads Service and the Water Service. Secondly, our team at headquarters monitors the economically significant applications being handled at divisional level. If a blockage of applications arises, we can ensure that the matter is elevated to senior management level as quickly as possible. That is paying dividends. I would accept, however, that there are clusters below that, such as small commercial operations, which are not caught by those arrangements.

616. Pat McBride will elaborate on how divisional managers try to manage that, in addition to dealing with the other issues that have been described.

617. **Mr McBride:** Guidance was issued to managers on the prioritisation of planning applications, largely due to the influx of single-dwelling applications. It was of some comfort to know that managers already prioritise a range of commercial, industrial, social and grant-aid applications.

618. There is a perception that planning processes have militated against farm diversification, for example. I could provide a list of those applications, but there are not that many. I am not answering the question with a question, but is the Committee saying that current rural planning policies do not make enough provision for small rural businesses?

619. **Ms Gildernew:** Yes.

620. **Mr Ford:** Mr Dallat referred to grants and planning processes being tied to a timescale. I was thinking of a particular case where an application seemed to take a long time.

In that instance, the fault did not lie entirely with the Planning Service, but it seemed that the service was treating the case as it would any other routine matter. When I queried the matter, there was some speedy movement. However, there was no process in place to ensure speedy movement, because the case was not big enough economically.

621. **Mr McBride:** Recently, another Department introduced grant-aid schemes, without any reference to the Planning Service. If it is any comfort, we picked up on that and have developed new working relationships with Departments to ensure that not only is the service actively engaged when such a grant scheme emerges, but actively involved in any new schemes that Departments may introduce.

622. Of the many cases in Northern Ireland, only one, in the Omagh Division, resulted in a refusal. However, there were strong amenity reasons for that. Those who had provided information about that grant had not identified certain planning issues, which, we must all agree, are important. That is also our responsibility.

623. **The Chairperson (Mrs Long):** The subgroup should note that interlinkage, because it is important to provide measures that would aid the Planning Service in helping developments.

624. **Mr McNarry:** From the evidence that we have gathered, it is clear that the Planning Service has an image problem. I cannot do anything about that, but you should be able to do something about it now that it has been pointed out to you.

625. Invariably, expressions of interest, particularly for large sites, are leaked. Can the Planning Service, within its constraints, pick up on that? Can the service anticipate problems that could arise if the application were to go ahead? That could be equally useful to the applicant and to potential objectors.

626. I sympathise greatly with the Planning Service, as it may be aware of matters that are likely to arise. However, is the service restricted in reacting to those matters until an expression of interest becomes official? If so, that seems to be an impediment and is a resource issue. I

would not want the Planning Service to waste time and effort on something that may not come to fruition.

4.15 pm

627. However, the message seems to be that it would help an investor if he could get quick answers to his economic needs, including planning, so that he can ascertain whether he — or she — was wasting his or her time.

628. Do you have a think tank that could address something that you heard was in the offing, and, if so, how would that work?

629. **Mr D Ferguson:** The short answer is that we do. The unit that I mentioned earlier, which is at our headquarters, can do exactly that. I will come back to restrictions in a moment, but the unit is there to do exactly the sort of thing that you suggest — it is there to engage with prospective investors and developers on sites, large and small. As regards planning applications, the more pre-application discussion that we have, especially if the proposal is fairly certain to progress to application, the better, and there is a greater chance of the application going through the system once it comes in. Therefore we would encourage that, particularly for bigger projects.

630. The only restriction is that we discharge a dual function. We have an advice-giving role, which is critically important for the larger applications, but we also have a regulatory role. We must decide on applications when they come in, sometimes to the dissatisfaction of the applicant, and sometimes to the dissatisfaction of the objectors, but we still have to decide on them. In giving pre-application advice, however, we need to be absolutely clear that we do not step over the important dividing line between giving advice and being a regulator.

631. We are not the only ones in the business of giving advice. I would strongly advise applicants, especially for large projects, to get private advice as well.

632. **Mr McNarry:** That is very interesting, and I want to feed into it. I am neither objecting to it nor am I against the entrepreneurial spirit of people going into business, but the business

of planning consultants is growing. In some cases they are rip-off merchants and in other cases they are genuine people. It depends on what end of their brief you are at.

633. Do they have access to the unit in any special way? Could I access the unit? The money that is spent on making an application is not small beer.

634. **Mr D Ferguson:** Yes, you could, but we are not a substitute for applicants — particularly applicants for larger projects — engaging their own planning consultants. However, if you had a major development, you could engage —

635. **Mr McNarry:** Or a small development?

636. **Mr D Ferguson:** It depends. The unit deals with the larger projects that we have assumed in all our discussions are the focus of the subgroup's consideration. I would strongly encourage an individual making an application for a smaller project that the unit would not normally deal with to approach the divisional office.

637. **Mr Poots:** We referred in our report to creating an enabling environment for the planning of our economy. However, what we have is a restrictive environment, because in an economy one wants to grow things. We want the economy to grow and to create jobs and wealth. However, that can be done only if we have people.

638. Area plans that are particularly restrictive and drive up house prices to an extortionate rate — by more than 50% this year in many areas — need to be addressed. How are we to encourage people back to Northern Ireland to take up employment if they have to spend much more on buying a house here than they would in mainland UK? That must be addressed. The area plans are not meeting the housing growth indicators (HGI), and the Belfast Metropolitan Area Plan (BMAP) is an example of that. When it was originally produced, it contained more housing than was required, but, before we have reached the public-inquiry stage, there are now fewer houses in the plan than the HGIs show are required.

639. Leaving aside the issue of single dwellings in the countryside, Draft PPS 14 hugely restricts tourism and rural diversification. As I represent

a largely green-belt area, that may not seem to make that big a difference. However, I have discovered that some £2.5 million of European grants from a budget of £7.5 million has had to be handed back because, although the grant aid had been approved, planning permission had been refused. Those projects were almost exclusively in the green belt, and similar policies will now be applied throughout Northern Ireland. As a result, we shall not be able to make use of a lot of European money that might otherwise have been available to us.

640. When can we move from what is essentially a restrictive planning environment to an enabling one?

641. **Mr D Ferguson:** I shall make a general observation in response to that. Northern Ireland's economy is growing, and there are a number of reasons for that. Northern Ireland is also rich in natural and, to some extent, built heritage — it is a very rich region indeed. Planning policy, in broad terms, is aimed at striking a balance that allows the economy to flourish in a way in which that rich natural and built heritage is not destroyed or unreasonably affected.

642. That is what is at the heart of planning policies that have an effect on the economy. I assume that you are not suggesting that development should be let rip.

643. **Mr Poots:** You assume correctly.

644. **Mr D Ferguson:** Since that is the case, some sort of balance must be struck, and we are trying to do just that with policy at the minute. We may not, in your view, get the balance right, but we are trying to ensure that the economy can flourish in a way that does not have a deleterious effect on the natural and built heritage.

645. **Mr T Clarke:** One of the biggest contributions that we can make to an enabling environment is to provide the certainty to which David refers. That is why all our area plans contain clear policies. Members can argue about whether they are restrictive or not, but they do give a degree of certainty, and that is really what developers are after. We intend to have them all out in the next 18 months or so, and then we shall be in an almost unique position in the British

Isles in having such a level of up-to-date coverage, and that should give us an advantage.

646. Mr Poots knows that the area plans that we produce are controlled by the figures in the Regional Development Strategy and in the HGIs. Those were changed recently, and all our area plans are adjusting to reflect that. You mentioned BMAP, which was published with figures that were above the then HGIs. New HGIs came out, and we are seeing how we can revise the plans in the light of those indicators. We do try to make adjustments as HGIs come out. The figures show that we have been approving increasing numbers of houses each year for a while now. From 1998 to 2004, we increased the number of permissions granted for housing by close to 100%, so there is more to the rising cost of housing than any lack of planning permission. We are trying to facilitate, but there are key factors at work here other than planning.

647. **Mr Poots:** One matter that has to be addressed is land banking. As a result of having a comprehensive set of area plans, people can identify land that can be developed. Developers are banking land — they make more money by buying land and sitting on it than by building on it. Has any thought been given to how we can counteract that process for the benefit of the people, as opposed to for the benefit of the developers?

648. **Mr T Clarke:** The Government are aware of that. The Planning Service does not see itself as the lead agency in solving that problem, but we know that our Department for Social Development (DSD) colleagues are addressing it. For what it is worth, our contribution is to grant time-limited permission for housing, and that will ultimately lapse if it is not implemented. I do not argue that that is the key solution to the problem, but it is an area to which we can contribute.

649. **The Chairperson (Mrs Long):** Michelle Gildernew has one further brief question to ask to finish the session.

650. **Ms Gildernew:** As a supplementary to David McNarry's question, what is your definition of the word "major"? Developments that are

major in Belfast may not necessarily be major elsewhere.

651. **Mr D Ferguson:** That is a good question. We do not have a specific definition of that word written down as such. However, I take your point that what is big in Belfast may not be big in Enniskillen or Omagh. A large acute hospital in Enniskillen is as important as a big acute hospital in Belfast. Work on one of the projects that I mentioned has been proceeding well, because of the time and effort that applicants put in before their application was received.

652. **Ms Gildernew:** However, to be more specific, 60 additional jobs with expansion potential in Beleek is different from 60 additional jobs in Belfast.

653. **Mr McNarry:** Do not forget that I also represent a rural constituency, so that point applies just as much to Newtownards. However, the planners do not know where Newtownards is. *[Laughter.]*

654. **The Chairperson (Mrs Long):** On that high point, Mike Smyth, as adviser to the subgroup, will ask a question about some of today's presentations.

655. **Mr Smyth:** What could planning bodies generally and the Planning Service in particular do as part of a comprehensive economic package to rebalance Northern Ireland's economy? What positive contribution could you make? I notice that your presentation discusses the current situation and perhaps reflects on past bad publicity, but do you have any positive and proactive suggestions for the package?

656. **Mr D Ferguson:** To pick up on the recommendation in the subgroup's report, which was debated in the Assembly, we think that we are already doing most of the work that the subgroup wants. Planning is pivotal to the development of the expanding economy, and we have been positioning ourselves in recognition of that in order to deal with what is coming through the system and with the perception of the slowness of the process. We have been positioning ourselves to ensure that the big stuff, which we assume is at the heart of the subgroup's interest, goes through the system as quickly as

possible and that the not-so-big stuff is adequately and quickly handled at divisional level.

657. I return to a point that I made at the beginning. I cannot stress that point enough, along with the fact that we know that we are pivotal and that we have a responsibility to manage the process. However, there are limits to our ability to do that, because others are involved. It is important that the subgroup look at where and why there are delays. I suggest that there is a combination of reasons for those delays. I freely admit that some are down to the Planning Service and some are down to difficulties that our consultees are having. However, some are due to applicants and their agents not supplying us with the information that we need in order to process an application.

658. An application, large or small, will go through the system at the speed of the slowest in the column, which is made up of individuals and organisations. It is in everyone's interests to ensure that everything moves through the system quickly.

659. **Mr Poots:** The Environment and Heritage Service (EHS).

660. **The Chairperson (Mrs Long):** Thank you very much for coming before the subgroup this afternoon and giving us your time. I am sorry about the delay; I thank you for your patience. It has been a useful session, albeit robust at times. The documentation that you have provided for members will be very useful. Thank you for that.

661. **Mr D Ferguson:** Thank you.

662. **Mr McNarry:** If Jim Shannon were here, he would be running after the witnesses saying: "There's a couple of wee applications that need sorted out." *[Laughter.]*

4.30 pm

663. **The Chairperson (Mrs Long):** We are now in closed session and will deal with the remaining items on the agenda.

664. A number of members are under considerable time pressures because they have other engagements and should really have left the meeting before 4.00 pm. We should try to

deal with the rest of the business as quickly as possible. I suggest that the review of today's evidence session be postponed until the next meeting of the subgroup. Are members content?

Members indicated assent.

665. **The Chairperson (Mrs Long):** There are three other items on the agenda. We should deal with the first item — the quorum — as quickly as possible. At present, the quorum is seven; members have demands on their time, attending PFG Committee meetings and plenaries, and it has become increasingly difficult to maintain the quorum. It has been suggested that the quorum be reduced to five, with one member from each party being present, which would be a significant enough quorum to ensure that we meet our obligations on all-party consensus on issues. Are members agreed that that proposal be forwarded to the PFG Committee for its consideration?

Members indicated assent.

666. **The Chairperson (Mrs Long):** The second item was raised by David McNarry during the question-and-answer session with InterTradeIreland, and it relates to his concerns about increasing all-island economic collaboration and pressure being applied by Government to move in that political direction. We discussed that issue during the suspension of the meeting and were unsure whether it fell within the remit of the subgroup. Given that the issue has political overtones, it would be an appropriate item to raise at the PFG Committee. Mr McNarry, are you happy for the matter to be referred to the PFG Committee, at which it could be discussed and any information fed back to the subgroup?

667. **Mr McNarry:** I cite the precedent of the subgroup's writing to the Secretary of State about the working group on industrial rating, which includes the Northern Ireland Manufacturing Focus Group. The Secretary of State established that working group without informing us. The Government would appear to be working on all-island economic collaboration. I am concerned about the issue, and I think that we are due an explanation from the Government about what activities they are involved in and what

decisions they are taking, especially given that this subgroup is meeting and reporting back to the PFG Committee. After all, the Secretary of State is the genesis of all this.

668. **The Chairperson (Mrs Long):** There is a difference, in that the working group on industrial rating came under the remit of the economic challenges subgroup at the time that the letter was sent —

669. **Mr McNarry:** That is not true.

670. **The Chairperson (Mrs Long):** — whereas North/South co-operation is not. It is an important issue that should be dealt with, and, although it has implications for the subgroup, it would be best dealt with by the subgroup's asking the PFG Committee to write to the Secretary of State, as it falls more under a political remit.

671. **Mr McNarry:** I shall not get into an argument with you, but this is an economic issue. I have concerns about the political aspects, but it is an economic issue, in that the Government are taking economic decisions about our country.

672. We have had an extension to our time, and we have been charged with producing further evidence. We raised some of the matters that arose in InterTradeIreland's statement today. We raised them, and they are included in the subgroup's report, which was endorsed by the PFG Committee and accepted by the Assembly, so it relates specifically to economic issues.

673. **The Chairperson (Mrs Long):** Do you wish to put a specific proposal?

674. **Mr McNarry:** I propose that we request of the Secretary of State a full report and details of the Government's remit in this economic collaboration, as outlined in the InterTradeIreland statement.

675. **The Committee Clerk:** The UK Government's remit?

676. **Mr McNarry:** Well, this is the United Kingdom.

677. **The Committee Clerk:** I appreciate that; I am just writing it down.

678. **The Chairperson (Mrs Long):** Is there consensus on that proposal?

679. **Ms Gildernew:** No, there is not. First, it is political, and people have come to give evidence who may be more closely aligned politically to Mr McNarry than I am. However, it makes absolute economic sense to piggyback one of the most successful global economies. Many people have said that increased collaboration means more economic success for the people who live here. I am very disconcerted about David's opposition —

680. **Mr McNarry:** I am not denying that. I need to know what they are doing.

681. **Ms Gildernew:** The more the better.

682. **Mr McNarry:** You cannot just say that.

683. **Ms Gildernew:** I can.

684. **The Chairperson (Mrs Long):** Members, let us have some order. We are not going to enter into discussion on the pros and cons of that issue. We asked whether there was consensus. There was not, so can we vote to establish whether we ask for a report from the Secretary of State? That is the crux of the matter. I am aware that we could lose our quorum, so we need a decision in order to progress.

685. **Ms Gildernew:** Take it as an individual, rather than a subgroup, proposal. I appreciate that Mr McNarry has his opinion, but —

686. **Mr Ford:** David has not explained why the work of InterTradeIreland, as opposed to that of all the other agencies that have a remit on this subgroup, should be singled out.

687. **Mr McNarry:** Let me make it clear: I picked up from the InterTradeIreland statement more information than I was previously aware of. I expressed my gratitude to those who presented the statement for producing that information. However, I read from it that our Government are doing things in Northern Ireland's so-called economic interest about which I know nothing and about which this subgroup should know more, so that it can be included in its deliberations and its second report.

688. **The Chairperson (Mrs Long):** You have put your proposal, and we have advice on that proposal.

689. **The Committee Clerk:** The practice would be that David would ask the PFG Committee to request a report, so if the proposal —

690. **Mr McNarry:** No, I am sorry. That is a cop-out.

691. **The Committee Clerk:** It is the only thing —

692. **Mr McNarry:** No, it is not. I will challenge you on that.

693. **The Committee Clerk:** It is not the subgroup of the PFG Committee's —

694. **Mr McNarry:** We have a voting situation, because it was agreed that this subgroup could agree proposals by a majority vote. If my proposal is knocked back to the PFG Committee, consensus will be required. We have already heard from Sinn Féin that there will not be consensus, so I may as well not put my proposal.

695. Some substance must be applied to the fact that we can vote on a proposal. I am quite prepared to accept the decision of that vote, but we should not play at ducks and drakes with it by knocking it back to the PFG Committee. Everybody knows fine well that we have knocked other proposals back there, and, because there is no consensus, they go out the window.

696. **The Chairperson (Mrs Long):** The substantive point is that if we put David's proposal to a vote and it is agreed by a majority, it will have to go to the PFG Committee in order to be progressed, because this is a subgroup of that Committee. We can take the vote today, but the issue is what subsequently happens to the proposal. We are simply making you aware of that, David. You have put your proposal —

697. **The Committee Clerk:** To be fair, David has a point, and I would want clarification before saying that that would be the procedure. What you say, Chairperson, is my impression, but we have in the past invited the Minister without going through the PFG Committee, so, in deference to David's point, I would prefer to check that first. However, it would be useful,

irrespective of whether we have to through the PFG Committee, to be clear about David's request. I have written:

"To request of S of S a full report and details of the UK Government's work on North/South economic collaboration with the Republic of Ireland" —

698. **Mr McNarry:** Through the British-Irish Intergovernmental Conference.

699. **The Chairperson (Mrs Long):** That is the proposal. It will be put to a vote and, depending on whether it is successful and on the advice that we receive on protocol, will be passed either to the PFG Committee or to the Secretary of State. Are members clear? The proposal will be put to the vote, and everything will become apparent afterwards. The Committee Clerk will read the proposal.

700. **The Committee Clerk:** Mr McNarry's proposal is to request from the Secretary of State a full report and details of the UK Government's work on North/South economic collaboration, through the BIIGC.

701. Members should bear in mind that each party has one vote on the proposal, so members should not vote contrary to their colleagues.
[Laughter.]

702. **Dr Birnie:** That would never happen, would it?

703. **The Chairperson (Mrs Long):** Are members agreed? Can we have a show of hands?

704. **Mr Ford:** I agree to seeking the information, but I certainly do not agree that it should hold up the subgroup's work.

705. **Mr McNarry:** No.

706. **Mr Poots:** All we want is the information.

707. **The Chairperson (Mrs Long):** Are members agreed?

Members indicated assent.

708. **The Chairperson (Mrs Long):** The third issue, which Esmond Birnie raised, concerns the industrial rating subgroup. For information, Dr Birnie asked why the Minister had not responded to our enquiries. We have been advised that the

Minister is on leave until October, which explains the delay.

709. **The Committee Clerk:** An interim reply was received a couple of weeks ago.

710. **Dr Birnie:** Is David Hanson on leave?

711. **Mr McNarry:** Goggins, or whatever you call him.

712. **Dr Birnie:** Has the responsibility moved to another Minister?

713. **The Committee Clerk:** Hanson was due to reply, and a holding reply, which I put before the subgroup, was received a couple of weeks ago.

714. **Dr Birnie:** We should probably write to the Minister in any case, so that the issue is dealt with as soon as possible. A number of members are concerned that we are working in a very similar area to the working group on industrial rating, and we want to know what it is doing. My understanding is that the working group on industrial rating will meet David Hanson on 18 September. The fact that the NIO claims that Minister Goggins is looking after it seems to be a discrepancy. What is going on?

715. **The Committee Clerk:** It may be a question of names in my mind, but I will check.

716. **The Chairperson (Mrs Long):** Are members content that we consider the matter further?

Members indicated assent.

717. **The Chairperson (Mrs Long):** The next item of business is the date, time and place of the next meeting. Before that, we must agree the press release. The Committee Clerk has a draft.

718. **The Committee Clerk:** The draft press release covers all witnesses that appeared before the subgroup today, except the Planning Service.

719. **The Chairperson (Mrs Long):** Are members content with the press release?

Members indicated assent.

720. **The Chairperson (Mrs Long):** The subgroup will meet again at 10.00 am on Thursday 21 September in room 135. The subgroup will take evidence on an economic package/peace dividend, and fiscal issues. The Department of

Enterprise, Trade and Investment and the Economic Development Forum will attend the morning session, and John Simpson will attend after lunch.

721. Members will be asked to briefly outline party views on an economic package and fiscal issues in the afternoon. That will be followed by a facilitated discussion, led by the two economic advisers. It is therefore important that parties submit written documentation on their position, as that will ease the discussion. The economic advisers will also give their views. The meeting will run until late afternoon. The objective is to achieve consensus on the basic ingredients of a peace package, including preferred fiscal measures. Are members clear on the tone of the next meeting and about what is required?

722. **Ms Gildernew:** As the meeting is likely to go on until late afternoon, is the quorum issue likely to be resolved by next week?

723. **The Committee Clerk:** That depends on the PFG Committee. When will it meet next?

724. **The Chairperson (Mrs Long):** Tomorrow.

725. **The Committee Clerk:** I will write to the PFG Committee immediately.

726. **Mr Dallat:** As a mere substitute on the subgroup, can I ask an entirely innocent question?

727. **The Chairperson (Mrs Long):** Yes.

728. **Mr Dallat:** Thinking positively, as I always do, if a new Assembly is up and running from 25 November, the Budget will be announced the following week, detailing all the various proposals and the new industrial rating system. Should the PFG Committee address that issue now?

729. The Secretary of State, with his usual arrogance, said that individual MLAs could not address the rating system. However, because the Secretary of State established the PFG Committee, it could provide some input into how the rating system will function. Political parties would not then be hung out to dry for having to operate a system into which they had had no input.

730. The matter should be mooted at the PFG Committee. The subgroup is like Alice sitting in Wonderland discussing matters that may never happen. On the other hand, we shall inherit a

direct-rule Budget — and everything associated with it, such as rates, which we were crucified for on the radio this morning — that we have had nothing to do with. We were not allowed to have anything to do with it.

4.45 pm

731. **The Committee Clerk:** Speed is always an issue when the subgroup needs to raise issues with the PFG Committee. I suggest that the quickest and best approach would be for each party's representatives on the PFG Committee to put the matter on the agenda if they feel that it is appropriate.

732. **Mr Dallat:** How do we get it on the agenda?

733. **Ms Gildernew:** Talk to your PFG Committee representative.

734. **Mr Dallat:** That could be difficult.

735. **Mr McNarry:** I want to return to the question of producing papers. The Ulster Unionists would prefer to hear what the economic advisers have to say, if that were in order, so that we could work out some balance.

736. I have a fair idea of what the Ulster Unionists will say, and a fair idea of what everyone else will say, but we would be interested to hear what the economists have to say.

737. **The Chairperson (Mrs Long):** The timing is difficult. The subgroup has had to move the review of evidence from today's session until the start of the next meeting.

738. **Mr McNarry:** The Ulster Unionists could produce a paper 48 hours after they have listened to the economists, if that would be of help.

739. **The Committee Clerk:** There is a practical issue to consider. The deadline for the report on the economic package, which includes fiscal measures, is 4 October. That means that the subgroup will have to consider the draft report at the meeting before that, which is 28 September — the week after next. The reason why it was suggested that we discuss the draft report on the afternoon of 28 September was that all the evidence would have been heard, except for more from the political parties. The

idea was to have an open forum discussion informed by the economic advisers, who would also submit their views, and try to reach consensus. The difficulty with the timing would be that there would be no space to do that if you leave any views out, unless we were to hold a further meeting.

740. **The Chairperson (Mrs Long):** The other option would be that members could arrive equipped with their overview statement and with a draft report that they could amend after the discussion. At least there would be some basis for progress. If that were acceptable, it would allow the Ulster Unionist Party to firm up its position in the hours following the meeting, as opposed to being tied to a final draft at the meeting.

741. **Mr McNarry:** I feel that we are being rushed. I do not live too far away, so I am asking for something for members who have to travel greater distances. I would prefer to slot in another day and get it right rather than — with all due respect — rush something, only to find that it is incomplete, because the further evidence that the economists will have presented will not have been included.

742. **Ms Gildernew:** You have great faith in the economists.

743. **Mr McNarry:** We are paying them.

744. **The Chairperson (Mrs Long):** The meeting would need to take place on Monday or Tuesday of next week, so we need to agree that we shall meet.

745. **Ms Gildernew:** Monday does not suit me.

746. **Mr McNarry:** Monday is a difficult day, as the Secretary of State is giving evidence and all sorts of crap to the PFG Committee.

747. **The Chairperson (Mrs Long):** There could also be a plenary on Monday or Tuesday.

748. **Mr McNarry:** There is a plenary on Tuesday.

749. **The Chairperson (Mrs Long):** I have just been told that there is a plenary on Tuesday and Wednesday. I take on board the points that have been made, but there does not appear to be any way of extending the deadline. If members

could work on the basis of draft reports, that would allow the subgroup to move on.

Adjourned at 4.48 pm.

Thursday 21 September 2006

Members:

The Chairmen, Mr David McClarty and
Mr Francie Molloy
Mr Roy Beggs
Dr Esmond Birnie
Mr Wilson Clyde
Mr John Dallat
Mr David Ford
Ms Michelle Gildernew
Mr Fra McCann
Mr Kieran McCarthy
Mr David McNarry
Mr Ian Paisley Jnr
Ms Margaret Ritchie
Ms Kathy Stanton
Mr Peter Weir
Mr Mike Smyth
(Economic Adviser to the Subgroup)

Witnesses:

Dr David Dobbin	}	Economic Development Forum
Dr Michael Maguire		
Mr Seamus McAleavey		
Mr John Simpson	}	Economist

The subgroup met at 10.10 am.

(The Chairman (Mr McClarty) in the Chair.)

750. **The Chairman (Mr McClarty):** The meeting is now quorate and we can begin. I thank members for attending in good time despite the inclement weather.

751. I have received apologies from Dr Alasdair McDonnell, who will be replaced by John Dallat. Sean Neeson will be replaced by Kieran McCarthy. Ian Paisley Jnr has to leave about noon, and he will be replaced by Wilson Clyde. Peter Weir will not arrive until about 11.00 am. Roy Beggs is substitute for David McNarry. Francie Molloy will chair the afternoon session, which begins at 1.15 pm. Are members aware of any other apologies or changes?

752. **Ms Stanton:** Michelle Gildernew is on her way; she has been caught in traffic.

753. **The Chairman (Mr McClarty):** Members have the draft minutes of the meeting of 14 September in front of them. Once agreed, they will be placed on the Assembly website. Are members content that they are an accurate record of proceedings?

Members indicated assent.

754. **The Chairman (Mr McClarty):** Item 3 on the agenda is matters arising. At its first meeting in July, the subgroup agreed that Hansard should record all subgroup meetings in their entirety. That has been done to date, aside from meetings when the subgroup has been considering its draft report.

755. The suggestion is that Hansard should commence recording at the start of the open session, omitting the administrative business conducted in the closed session at the start of each meeting. What are the members' views? Any decision reached in that part of the meeting would be recorded as usual in the minutes of proceedings. Today's meeting will be recorded in full, but if members agree to the suggestion, it will be implemented from the next meeting.

756. **Mr Beggs:** That was normal practice in previous Assembly Committee meetings. It would save unnecessary work.

757. **The Chairman (Mr McClarty):** Are members content that this meeting will be recorded in full, but that for future meetings the business part at the start will not be recorded?

Members indicated assent.

758. **The Chairman (Mr McClarty):** I have received a number of pieces of correspondence. Recent correspondence with the Preparation for Government (PFG) Committee is included in the members' pack. As agreed last week, the subgroup wrote to the PFG Committee regarding its quorum and also to request a written

ministerial response to its first report. The subgroup requested that its quorum be reduced from seven, excluding the Chairperson, to five, excluding the Chairperson, with the proviso that a representative from each party is present. The PFG Committee has approved our request.

759. **Mr Beggs:** If members from one party are absent, the Committee cannot meet. It is a restrictive requirement. The onus is on members to attend, but I wish to highlight that potential difficulty.

760. **The Chairman (Mr McClarty):** That has not occurred this morning, thankfully.

761. **Mr Beggs:** At one stage this morning five members were present, and we had to wait until others arrived.

762. **The Chairman (Mr McClarty):** It can cause a difficulty.

763. **Mr Ford:** It has been the practice, both in the PFG Committee and in the subgroup that meetings do not start in the absence of any of the five main parties. Therefore this formalises that practice.

764. **The Chairman (Mr McClarty):** I do not think anyone was getting at you, David, for your late arrival this morning. *[Laughter.]*

765. **Mr Ford:** I thought Roy was getting at Esmond, after what David was saying about Esmond.

10.15 am

766. **Ms Gildernew:** I am not normally last. Sorry for being late.

767. **Mr Ford:** It is me he is getting at, Michelle, not you.

768. **The Chairman (Mr McClarty):** Thank you for your attendance, Michelle.

769. With respect to a response to the first report, the PFG Committee did have time, at its last meeting, to consider our request that it urge the Secretary of State and his Ministers to respond promptly to the first report.

770. A request was made for this to be considered at the next PFG Committee meeting on Monday 25 September.

771. Last week, David Ford raised the issue of the distribution of press releases agreed by the PFG Committee. We checked with the Assembly's Information Office staff, who told us that all press releases issued by Assembly Committees and subgroups are faxed to approximately 85 newspapers, journalists, TV and radio stations in Northern Ireland, the Republic of Ireland and Great Britain. They are also e-mailed to several local journalists and to the Press Association. If members want individual journalists to be added to the list, secretariat staff will raise that with the Information Office.

772. It was agreed last week that a letter to the Secretary of State requesting a full report on North/South economic collaboration through the British-Irish Intergovernmental Conference would be issued. A copy of the letter is available for members to note.

773. Information requested from Minister David Hanson on the industrial derating working group is included for members' attention. Mr Hanson will chair the group, which includes representatives from the Northern Ireland Manufacturing Focus Group (NIMFG), Amicus and departmental officials. The draft terms of reference for the group are attached. These will allow the group to reach conclusions by late November 2006.

774. **Ms Ritchie:** Do we know anything about the timings and frequency of those meetings?

775. **The Committee Clerk:** We have not been briefed on that as yet.

776. **Ms Ritchie:** Can we obtain the details? We are entitled to know.

777. **The Chairman (Mr McClarty):** OK, Margaret. We will take that on board and try to find out.

778. **Dr Birnie:** My point is similar to Margaret's. The industrial derating working group says that it is to reach conclusions by late November, but has it reached any interim conclusions at this point? After all, the group does something similar to what we are doing.

779. **The Chairman (Mr McClarty):** We will make enquiries, Esmond.

780. We move to the evidence from the Department of Enterprise, Trade and Investment (DETI). Departmental officials were invited to give further evidence on the new terms of reference, including priorities for public expenditure to support economic growth; how an economic package might best be deployed; the potential costs and benefits of various fiscal measures; additional information on the case for corporation tax variation; and any legal advice that the Department would be willing to share.

781. We have received a reply from the Secretary of State; a copy of his correspondence is included for members' information. In summary, DETI officials cannot attend, as to do so:

“potentially breaches the relationship between them and the Government Ministers they advise; and in effect might cause them to anticipate conclusions which only Ministers could reach.”

782. The Secretary of State explains that he is seeking the Assembly's views on how the impediments to the economy should be addressed in policy terms. If officials were to give evidence on the said matters, the independent advice that Ministers receive could be compromised. He also points out that DETI was being asked to address excepted matters such as Government fiscal policy, which is the responsibility of the Treasury.

783. The Secretary of State also explains that DETI cannot undertake the specific research envisaged by the subgroup, but will:

“do all they can in the areas where factual information or analysis may be available”.

784. Have members views on that response?

785. **Mr Paisley Jnr:** Is that a guarded “no”?

786. **The Chairman (Mr McClarty):** How do members wish to take that forward?

787. **Ms Ritchie:** That response is a follow-up to the question that I put to Maria Eagle, when I asked her what the Government considered to be the contents of an economic package or dividend. She blankly refused to answer in an obvious attempt to redirect the question to us. We need some idea of what Ministers may be

thinking. If they can provide us with information, could we get around it that way?

788. **The Committee Clerk:** The decision could have implications for the subgroup's new terms of reference. In its first report, at recommendation 16, bullet points 2 and 3, the subgroup recommended that DETI should commission an independent study of the benefits and strengths of the fiscal incentives. Part of the new terms of reference is to consider the results of that research, and also Victor Hewitt's research on corporation tax. Clarification may be required on that issue.

789. **Mr Smyth:** Is there inconsistency? The subgroup has already taken evidence from the Department of Finance and Personnel (DFP) on those issues. In my reading of the minutes there was no issue of our terms of reference being compromised. What is the difference between DETI and DFP?

790. **The Committee Clerk:** From my reading of Hansard, I recall that DETI officials expressed concern about constitutional constraints. We have drafted a response from members to the Secretary of State. Has that letter been tabled?

791. **The Chairman (Mr McClarty):** We will circulate the draft response.

792. **Mr Paisley Jnr:** You could be kind about the Secretary of State's letter and describe it as froth, but I am not in the mood for being kind.

793. **Ms Ritchie:** Are you ever?

794. **Mr Paisley Jnr:** The letter is evasive and does not address the issues that we raised with the Secretary of State. It is patronising; it kicks the ball into the long grass so that the subgroup does not put agreed decisions to the Secretary of State on which he would have to act. The worst thing that could happen to the Secretary of State would be the subgroup's agreeing something that he would be forced to act on. We should keep that in mind when looking at the issues.

795. **Dr Birnie:** I agree with Ian that the response is disappointing. I note that in his letter of 18 September, Mr Molloy asked specifically about further information on DETI's understanding of the implications of the Azores

judgement on corporation tax. However, the Secretary of State has not dealt with that. The Azores judgement is a separate issue to which we may have to return later in the meeting. Further research may be needed, and although it is a lengthy judgement, it would be helpful if we all could have a copy of it.

796. **The Chairman (Mr McClarty):** Have members been given the draft response?

797. **The Committee Clerk:** No. It can be read out and then tabled.

798. **The Chairman (Mr McClarty):** This is the draft response to the Secretary of State: “Dear Secretary of State,

I am writing in response to your letter of 18 September 2006 to Mr Jim Wells MLA, in relation to the sub-group’s request for further evidence from DETI officials. Your letter was considered by the sub-group at its meeting on 21 September 2006. Members welcomed your positive comments in relation to the work of the sub-group but were disappointed that DETI officials were unable to attend to give evidence.

In issuing the invitation the sub-group had hoped that scope would exist whereby the DETI officials could provide further evidence which would inform the sub-group’s work on its new terms of reference. Whilst noting the constraints on officials, as described in your letter, the sub-group has asked me to write to you to seek clarification on the following:

whether the recommendation in the sub-group’s first report to the Committee on the Preparation for Government, namely that DETI commission an independent study into the costs and benefits of the various fiscal incentives, can be met by DETI;

whether DETI can provide the sub-group with any factual information which it may have on the benefits and costs of the various fiscal incentives; and

whether DETI can provide the sub-group with the results of the research which it is undertaking on the issue of Foreign Direct Investment.

The sub-group would welcome early clarification on these matters.”

799. **Mr Beggs:** That is a very reasonable response.

800. **The Chairman (Mr McClarty):** Are members happy to accept that?

801. **Mr Paisley Jnr:** I think that it is too reasoned.

802. Look at what the Secretary of State says in the last paragraph on the second page of his letter:

“I trust that you and your colleagues on the Sub-group recognise my dilemma and accept that I remain committed to a successful outcome to your important work, and to giving your analysis full and careful consideration.”

803. That is some patronising stuff. We are not here to provide an analysis for the Secretary of State; that is not what we have been tasked to do. Yet he expects us somehow be sympathetic to his dilemma. We should send a fairly robust response to the Secretary of State asking him if we are wasting our time. Does the Secretary of State think that we are here to provide him with an analysis that he can then set aside? He should be asked to recognise the dilemma that he has caused us by his refusal to allow us to probe officials on the issues, as we consider necessary, to enable us to put forward a demand for a financial package. We should be more robust with the Secretary of State.

804. **Mr Ford:** The tenor of the letter might reflect the precise constitutional niceties had we been asking for advice given by Treasury officials to the Chancellor, or something of that nature. However, this is a subgroup of the Committee for the Preparation for Government, established by the Secretary of State and with a remit to explore economic issues in depth; it is completely ridiculous that he is not prepared to allow officials to meet us.

805. I have no doubt that if the officials were to attend, they might have to apologise for not being able to answer some questions, or say that certain matters were currently under consideration. However, to refuse to allow them to attend meetings at all is ridiculous, particularly when we have asked specific questions. “What is your understanding of the

Azores judgement?" is a perfectly reasonable question to ask in any circumstances, and the Secretary of State ignores it in his letter. Our letter to him needs to be slightly beefed up.

806. **Ms Gildernew:** I agree that in normal circumstances the letter would be grand, but not in the current situation. I sense a general grumpiness around the table this morning, and that should be conveyed to Peter Hain.

807. I was in the Senate Chamber on Monday morning when the Secretary of State said that within reason, the PFG Committee had his full support and that of his ministerial team. Obviously, permitting officials to attend meetings of this subgroup is not considered to be within reason. The letter should be a bit crankier; we should let the Secretary of State know that we are not happy with his response.

808. **The Chairman (Mr McClarty):** Going by the comments that have been made, the Committee Clerk will have to take a leaf out of Ian's book and not be so kind in future.

809. **Ms Gildernew:** There is no need to go that far. The Clerk is a lovely fellow.
[Laughter.]

810. **Mr Paisley Jnr:** I advise everyone to avoid reading a book called, 'How to Win Friends and Influence People'.

811. **The Committee Clerk:** I will draft a slightly more robust letter.

812. **The Chairman (Mr McClarty):** New evidence has been received from the Industrial Task Force following last week's evidence session. There is also a further written submission from UUTech Ltd. A minute outlining legal advice from Assembly Legal Services in relation to the scope for varying corporation tax in Northern Ireland has also been tabled. I ask members simply to note the new evidence at this stage, as it will be discussed later today.

813. **Ms Gildernew:** I would like some clarification of George Quigley's paper on behalf of the Industrial Task Force. At present we come under the UK tax system, and the UK corporation tax rate is shown here as 30%. However, for small and medium-sized enterprises, the rate is

19%. If there are two different tax rates, we need the fuller picture in order to make a proper comparison.

814. **Mr Smyth:** The effective average tax rate (EATR) is a weighted average of the two rates and reflects the fact that in Northern Ireland more than 96% of businesses employ fewer than 100 people. In Britain, the figure is 91%, which is similar. Therefore, there is a heavy weighting towards the top rate of 30%. We will return to that issue throughout the day.

815. **Mr Paisley Jnr:** Are you saying that that is the effect on the ground?

816. **Mr Smyth:** Yes. For purposes of comparison, you need to look at the EATR, in the right-hand column of the table.

817. **The Chairman (Mr McClarty):** Additional information from Victor Hewitt of the Economic Research Institute of Northern Ireland (ERINI) has also been tabled.

818. **Mr Paisley Jnr:** Before we leave Sir George Quigley's evidence, I want to point out that the heavily weighted figures that he provided must be recognised. Perhaps we will get a chance to discuss them later. He lays down some heavy markers with regard to the economic package, tourism and other headline issues. I want to put a lot of emphasis on those points.

10.30 am

819. **The Chairman (Mr McClarty):** I must correct myself: the economic subgroup has not received that information from Victor Hewitt as yet. It is hoped that members will have received it by this afternoon. The legal advice that the subgroup has received has been passed around.

820. All organisations and individuals who gave oral evidence and sent written submissions for the first report have been contacted in order to determine whether they wish to make further submissions. Apart from those who were present last week, and those who are here today to give oral evidence, only UUTech Ltd has sent further information.

821. I remind members that as we are now in open session, the discussion will be recorded.

822. Good morning, gentlemen. You are extremely welcome.

823. Dr David Dobbin, Mr Seamus McAleavey and Dr Michael Maguire represent the Economic Development Forum (EDF). They have been allocated one hour. They did not provide a written submission in advance, but I believe that they have brought a paper with them.

824. The three witnesses are the outgoing chairpersons of three of the four EDF vision subgroups, namely the innovation, skills and enterprise subgroups. In discussing our terms of reference, they are likely to refer to the work of their respective subgroups. I ask members to keep their questions brief and focused on the terms of reference that have been included at the front of members' packs.

825. **Mr Seamus McAleavey (Economic Development Forum):** Thank you for the invitation to the meeting of the economic subgroup. We are non-governmental members of EDF. Some of the economic subgroup's members will have experience of EDF. On Tuesday, EDF held a meeting at which party representatives were present.

826. We have been to meetings of the economic subgroup with our own organisations: I have been here with the Northern Ireland Council for Voluntary Action (NICVA), David Dobbin attended with the Confederation of British Industry (CBI) and Michael Maguire represented the Institute of Directors (IoD). Today, we will deal with matters from an EDF perspective and from that of the subgroups in which we are involved.

827. I chair the medium-term strategic priorities subgroup, which developed the seven medium-term strategic priorities that EDF set. Those priorities are outlined in our document 'Working Together for a Stronger Economy', copies of which I have provided for members in case they are not familiar with them. I am sure that some members will be.

828. David chairs the innovation subgroup, and Michael chairs the skills subgroup. I have also been involved in the enterprise subgroup. Lord Rana, its chairperson, could not be present

today, and, in the time available, we were not able to rustle up the chairperson of the infrastructure subgroup.

829. The strategy document was created before the 'Economic Vision for Northern Ireland', which built on it. We laid out a series of strategic priorities, and then set high-level targets or indicators for them — there was also a secondary set of indicators — to look at the interventions that could make real progress with the economy in Northern Ireland. We have begun to monitor those indicators and to examine how the economy has performed.

830. Over the past year, Regional Forecasts, which is led by Graham Gudgin, has been carrying out work for us on those indicators. Some members here may have been present at a meeting a year ago when the EDF received a report that said that if Northern Ireland continued with its current policy interventions, there would be flat-line development on almost all those indicators up to 2010 and further to 2015, and, on some indicators, the situation would get worse. If we continue as we are, there will not be much improvement. That appears to be the empirical evidence, and that is our forecast.

831. The EDF has been trying to consider possible Government interventions that could make a difference. We have started setting up and testing scenarios but, unfortunately, we do not have the results of that yet. We have a first draft, but the medium-term strategic priorities subgroup has only begun to consider that. It would have been great if the results had been available for the economic subgroup. The areas that we are examining relate to employees in tradable services. For example, if employment in those services were to increase to 5% of total employment by 2015, what realistic difference would that make?

832. Other scenarios being considered and modelled are total value-added-tax (VAT) registrations per 10,000 businesses. If that were to increase to the UK level by 2015, what would be the likely impact? What if, by 2015, the number of jobs created through inward investment were to increase to 3,000 per annum; business expenditure on R&D, as a

percentage of gross value added, were to increase to 70% of the UK level; or the percentage of the working-age population qualified to at least level 4 were to increase to 30%?

833. The model is unlikely to produce a set of results that will show where all the policy interventions should be made. There will be a lot of debate and nuance around that. However, we hope to find some evidence to suggest what changes Northern Ireland could make that would make a difference.

834. The main issues that have arisen on the enterprise subgroup, of which Lord Rana is the chairman, concern the low level of exports from Northern Ireland. Only about 10 serious companies are involved in major exports. The majority of exporting from this region is to the Republic of Ireland and Great Britain, although Mr Smyth might consider goods sold to Great Britain not to be exports at all. A great deal of work needs to be done on that.

835. The enterprise subgroup has also considered the problem of the low enterprise culture in Northern Ireland. That issue has been around since the discussions on 'Strategy 2010'. It is not a question of simply telling the private sector that it should be more enterprising and entrepreneurial: the public and voluntary sectors also need to be more enterprising. We need to think more innovatively — that is the challenge. The enterprise subgroup believes that the public sector must take the lead, because it is such a big player in Northern Ireland. We need to change the culture of enterprise in that sector. When I gave evidence to the subgroup on behalf of NICVA, I drew on some of the conversations from the enterprise subgroup.

836. Therefore a future Northern Ireland Executive will have to consider how it uses its Public Accounts Committee (PAC). It will also have to examine the performance management structures of the Northern Ireland public services and how people are recognised and rewarded for being enterprising and innovative towards change. Dr Dobbin will now talk about innovation.

837. **The Chairman (Mr McClarty):** Before we continue, I remind members to switch off

their mobile phones because, even in silent mode, they interfere with the recording equipment.

838. **Dr David Dobbin (Economic Development Forum):** The vision document that was published a while back, and was launched by the Minister, was worked on by all the stakeholders. It addressed the four main drivers — innovation, skills, infrastructure and enterprise — that are required for the development of a private-sector economy. Four subgroups relating to the four main drivers were set up by EDF in addition to the original medium-term strategic priorities subgroup. Each of those subgroups examined what could be done better or differently in the four key areas. They examined new initiatives that could make a difference or enhance what was already happening.

839. I have a handout that summarises what I am going to say, but I will give members a synopsis of the work to date and the status of the innovation subgroup's work. The Government talk about the importance of more R&D spend. At the outset, we want to differentiate between innovation and R&D. Innovation is concerned with the commercial side, where ideas can be turned into a product or service that can be sold and on which money can be made.

840. R&D is about discovery and creating new knowledge; innovation is about exploiting that knowledge in product and services. Innovation is nearer to the market, and it has a much more economic relevance than R&D. That is not to say that R&D is not important, because, ultimately, innovation flows from R&D. However, businesses can have innovation without R&D. The innovation subgroup is focusing on innovation — the creation of wealth from the exploitation of knowledge.

841. To date, the innovation subgroup has focused on nine key issues: tradable services; nanotechnology and key technology areas; collaboration between business and higher and further education; research centres of excellence; the regional science-industry council; clustering; innovation skills; innovation metrics or measurement; and foresight. One of the key areas on which the innovation subgroup has focused is tradable services. Most commentators

believe that progressive western economies will grow in tradable services and decline in manufacturing and that manufacturing will move to lower-wage economies.

842. Tradable services are services that can be sold across frontiers and that can be exported, as opposed to services that are provided only in the domestic market. Tradable services include IT-related services, R&D, market research, architecture and engineering, technical support, advertising and creative entertainment, etc. They cover services that can be worked on locally but sold globally. Northern Ireland's economy is under-represented in that sector. We have just over half the level of tradable services activity of the UK economy.

843. There is a big drive to expand the tradable services sector. However, there is a fear that we will attract tradable services that are low in added value. For example, some call centres — which are technically tradable services — are competing with low-cost call centres in China and elsewhere. In my previous evidence to the subgroup on the subject of call centres, I made an analogy with battery hens. We want to avoid those types of tradable service jobs, although they are better than no jobs. We want to create jobs that require higher skills and command higher fees for the service, and therefore provide more wealth for Northern Ireland.

844. The good thing about tradable services is that they generally create high employment. They are employment-concentrated, unlike manufacturing, which is asset-centred.

10.45 am

845. We are exploring ways to address this issue, and the view is that we must look at innovation and more novel tradable services, as opposed to those that already exist. We have therefore considered what innovation could bring to tradable services. We have commissioned DETI's research unit to prepare a report, which will be ready shortly, to analyse where the value and growth is in tradable services and to identify the areas in which innovation plays a bigger role. We can then start to encourage Government and business to invest in R&D and innovation in tradable services — at the

moment, investment in R&D and innovation tends to be focused more on technology and science.

846. One of the key technology areas that is emerging globally is nanotechnology. Nanotechnology has commercial applications in almost every industrial sector: food; pharmaceuticals; engineering; electronics; and so on. We already have quite good research strength in nanotechnology, and we could become strong in that area if we can get in on the ground floor. We have discussed how that can be achieved. The universities believe that more investment is needed in PhD-level capability in universities. That would support research and, ultimately, feed skilled students out into industry.

847. That discussion led to a wider debate. Five key technology areas have been identified in the vision: agrifood; aerospace; ICT; life sciences; and nanotechnology. Progress in those areas will be important for the economy. Our work was extended from nanotechnology into all those areas. We talked to universities, and others, about how we could do more. The talk was generally about how capacity could be created through additional PhDs. A couple of years ago, the Department for Employment and Learning (DEL) cut its funding for higher degrees as part of a reduction in spending. The universities said that that was foolhardy. Northern Ireland has one of the lower levels of PhD students in the UK, yet it has a very good graduate output.

848. That has led to the innovation subgroup challenging the two universities. They continue to say that they want money for various bits of research and PhDs; we have said that it would be better for the universities to put their heads together and say: "If we had more resources, these are the outputs and outcomes that we could offer the economy." As a result of the innovation subgroup's work, the universities are now preparing an economic strategy and development plan outlining what they can do for the economy and what they need to be given to enable them to do it. That will be a very valuable contribution for the economic subgroup to consider. In the past, the economy was built

around labour or natural resources; in the future, most people will regard universities as being key economic centres in the creation of knowledge that can feed out into jobs and wider economic activity. It is essential that we push the universities to be more economically aware. They are receiving huge amounts of taxpayers' money, and we want to see more bang for our buck.

849. We have also explored how small businesses can become more active in innovation and R&D. We have a small-business economy, and small businesses generally find it hard to interface with universities or to get involved with research, either because of a lack of resources or a lack of sophistication. DEL has come up with a higher education/further education collaboration fund, and the Minister has now approved £3 million over the next three years. That fund is to be used to encourage small and medium-sized companies to interface with colleges and universities so that business can avail of some of their intellectual expertise. We call that technology transfer.

850. There is a bit of wrestling going on between the innovation subgroup and DEL. We think that the resources should be directed at people in further education colleges who face towards businesses, so that they can visit businesses, build links with them, try to understand their problems and enable them to access the expertise in colleges and universities. DEL and the universities want the money to go into general university budgets. The matter is currently out for consultation, and DEL is reviewing how it will spend the money.

851. The idea is good, but we must ensure that its execution delivers the objective.

852. Over the past number of years, there has been significant spend, funded by European Peace II and Invest Northern Ireland (INI), on R&D centres of excellence. We asked INI for a report on how well the centres of excellence are performing; whether they are generating commercially exploitable output; whether they are helping the economy; and, indeed, whether they are active. We have received a stage-one report, although it is not quite finished. The results are a mixed bag. Some of the R&D

centres are doing very well; others are not. We want to identify those centres that have the legs to be world-class and to drive research, innovation and the economy. We have commissioned INI to look specifically at those centres that could become internationally competitive in research.

853. We asked INI to look at the island as a whole, because some local companies feed off research from Southern Ireland institutions. INI is to determine what else is happening on the island and gauge whether we could lock into R&D centres in the South, and, indeed, in the Great Britain and world markets. Work is being done on the island of Ireland, globally and nationally to see how we can tap into the knowledge generated by other markets.

854. An initiative designed to help with that is the formation of a regional science industry council. Most other regions in the UK have a group of, if you like, wise men.

855. **Ms Gildernew:** And women.

856. **Dr Dobbin:** They are mainly people from industry and academia who advise Government on what research should be carried out, whether current research spend is in the right shape and what technological advances should be pursued. We are forming a regional science industry council in Northern Ireland that should hit the road in October. Its job will be to consider areas of R&D and technology in the Province, stimulate technology transfer and encourage the development of R&D.

857. We have also considered foresight. That means creating a vision of where technology will go in the future so that companies have a roadmap of the ideas and knowledge that they should be acquiring. The results of that work have been a mixed bag. Some of the foresight exercises in the five key areas, which include agrifood and aerospace, have been excellent; others have been weak.

858. One of the weak foresight exercises was the agrifood industry. Northern Ireland has a strong agrifood industry cluster, but weak foresight. As a result, we commissioned, through the Northern Ireland Food Strategy Group, a report from a team chaired by John Gilliland. It

has just produced its findings that show where the agrifood sector could go and how it could move from a commodity-focused basis to generating products that could create great wealth and secure the future of the industry. It is an encouraging report. The regional science industry council will take such work forward.

859. There are two other areas, the first of which is measurement. At the moment, as part of an EU survey, we measure innovation activity only once every three years. We have recommended that it be measured every year so that activity can be tracked and a watch can be kept on whether policies to stimulate innovation are working. Measuring innovation only once every three years creates too long a feedback loop to know whether an approach is working. Therefore we instituted the yearly survey for Northern Ireland, the first of which will be published in spring 2007.

860. The second area, which is skills, might lead into Michael Maguire's contribution. It is vital that we build innovation into the curricula for schools and further and higher education colleges. We must create in our young people the skills to innovate and an awareness of the need to innovate. Therefore, through Michael Maguire's group, we have been working on how we can embed those skills in the curriculum, particularly through the new learning for life and work element.

861. **Dr Michael Maguire (Economic Development Forum):** As with David Dobbin's innovation subgroup, the skills subgroup took as its starting point the skills issue that was identified in the 'Economic Vision for Northern Ireland'. One of the four drivers is to ensure that our people have the right skills for future employment opportunities. The subgroup's first task was to decide the priorities of such a broad area.

862. There are four areas on which we felt we could focus. The first is to consider how to increase the literacy and numeracy skills and qualifications of the workforce. The second is to use labour market information provided by employers to clarify what skills Northern Ireland industry will need in the future. The third is to survey managers to gauge their capacity,

competence and capability to lead innovation and economic development. The fourth is to review careers information, advice and guidance for all levels of the population.

863. The subgroup of which I am chairman comprises deputy chairmen from the trade unions, representatives of the voluntary sector, members of the business community and civil servants. In just over a year, the subgroup met approximately nine times. When deciding the subgroup's remit, members agreed on a number of issues around which to cluster discussions. In the beginning, the view was that the subgroup should not try to reinvent the wheel. The subgroup was aware of the fact that DEL was due to publish a skills strategy that would act as the blueprint for future skills development in Northern Ireland. Therefore in the early stages of the subgroup's work, members spent a lot of time with civil servants from DEL, as they produced and refined the skills strategy. As it developed into an implementation plan, the subgroup used the strategy to offer advice and to challenge the issues that were coming forward. As that discussion evolved, a number of points emerged.

864. As I have said at previous meetings, the skills strategy is good. It sets out objectively what we should be trying to achieve with FDI, such as encouraging SMEs and entrepreneurial growth in the local economy and enhancing literacy and numeracy, so that individuals have the skills that they need to enhance their employability and that employers have the necessary skills to develop their businesses. Having considered the strategy's aims, the subgroup's starting point was to agree that, in the main, that was the direction in which it should go.

865. I shall highlight two issues that emerged from the subgroup's discussions. The first is that we need to accelerate work on the future skill needs in Northern Ireland, and the subgroup strongly encouraged DEL to establish the expert skills group on future skills needs, the objective of which is to map out where the economy is going and what kinds of skills will be needed to put it where we want it to be.

866. The second issue links with some of the points that Mr McAleavey made. Performance management, particularly that of outcomes, is extremely important. Compared to DEL's aims, that area was quite weak. Therefore the subgroup encouraged the establishment of a project to consider specifically how the strategy's outcomes would be measured.

867. The subgroup presented the strategy to EDF, and there was general consensus that that was the correct way forward. Having set out the strategy, I asked for a breakdown of the funding for the four main themes associated with its delivery. At that point, several issues emerged. Members will have seen my EDF report, which raised questions about the focus of the money and the fact that it was concentrated on one particular theme. That led people to question whether some areas are not funded adequately and whether we have ensured the maximum return from the areas that receive block funding.

868. The subgroup also considered careers information and advice. Its view was that the concerns go right through the value chain. As young people go through school, their perceptions and career aspirations are shaped by the advice that they are given. The subgroup had concerns about the quality, independence and objectivity of that information and advice. In that context, the subgroup asked for a series of presentations from DEL and the Department of Education (DE) to find out what needs to be done in that area, where the weaknesses are, and what needs to be addressed.

869. An outcome of those presentations was a three-day conference with DEL, which brought together stakeholders to address what are we trying to fix and identify the problem. At the last EDF meeting, the subgroup presented a series of recommendations from that process, which gave a much clearer view of what is needed from a careers information and advice service.

870. The next question — although I will not be around to ask it — is: what will the remodel look like? It is not just about retaining the service in the schools or giving the teacher another qualification; it is about objectifying

and providing an independent service to a broad range of young people in Northern Ireland. The question is: how do we move forward?

11.00 am

871. The next issue that we looked at was management development and leadership. It is not too trite to say that everybody believes that the quality of Northern Ireland managers is critical to the development of the economy. Therefore we invited presentations from the Management and Leadership Network, DEL and others to talk about what is happening in management and leadership.

872. The first thing that strikes one is that a huge number of people are involved in the delivery of management development initiatives. That raises many questions. What we are trying to achieve? Are the relationships joined up? Is there a context in which all this work takes place? We welcome the work of the Management and Leadership Network, which tried to set out a policy on management development. It looked at the private sector, the voluntary sector and the public service to map out the competencies that are required to improve our management capability.

873. There were many strengths in that respect. At one meeting we had a large number of representatives from the universities, Departments and private companies who felt that that approach was a good way of addressing management development. We in Northern Ireland are very good at strategising; however, the question is what to do about it. Will there be funding to allow appropriate implementation?

874. The next issue that we addressed was the development of links between further education colleges and schools. We spoke to the Department of Education and to others about curriculum development and about the options that are open to young people. It is our view that a focus on a particular form of academic education — which is very good in its own right, and I am not suggesting that we touch it — can limit those options. Not everyone is an academic, and there must be other routes into employment. One way is to move the debate beyond the

schools to bring in further education colleges to examine the wider range of options that are available. People who may benefit from a non-academic approach could avail of other options through their school career. That is very much part of curriculum development in the Department of Education.

875. We took presentations about the vocational enhancement programme, the objective of which is to build strong links between further education colleges and schools. We were very impressed by how the programme has grown, albeit in the face of some resistance from schools with regard to broadening the curriculum. Moreover — and this issue has emerged elsewhere — one bumps up against a perception of the value of what used to be called “vocational education”. The proper term now is “professional and technical skills”. There is more to the education system than doing an A level in English; there are other things that we need to do. We were impressed by the vocational enhancement programme’s attempts to build the relationship between schools and further education colleges.

876. The vision is in place, and we have tried to align with DEL’s delivery of it. We need to look at the other key players. One of them is the Department of Education. A year or 18 months into the process we began to talk to the Department about the economic intent of the education process and about the Department’s economic intent. As it set out its stall on school performance, curriculum development and improved levels of literacy and numeracy, it became clear that there is a strong economic dimension to education; it is not education for its own sake. I shall come back to that point.

877. In considering the role of further education, we were impressed by the work that has been done in North Carolina on the role of community colleges in foreign direct investment. We asked for discussions with DEL and Invest Northern Ireland about the links between Invest Northern Ireland and the further education sector, and between it and DETI more generally. The impression that emerges is that there is activity, but it appears to be ad hoc and

fragmented. There is no strong awareness of the capability, the value and the relevance of the further education sector in professional and technical skills development. It is either a way of encouraging current employers to develop their in-house training or, equally important, it is a vehicle for part of the package for foreign direct investment. We learned from North Carolina that its community colleges are strongly linked up with foreign direct investment and that they provide an in-house training service to companies that want to locate in the area.

878. It is about tying the education and training infrastructure into a more economic focus.

879. Those are the general issues that we examined. I reflected on the economic challenges subgroup’s terms of reference to see what themes were emerging. I want to draw a number of points to your attention.

880. First, Northern Ireland is good on strategy, but it cannot escape implementation. If you focus on the expenditure profile of DEL and question the funds available for the delivery of some issues on the education side, the presentations raised some questions for me, and certainly for the EDF skills subgroup, about the Departments’ abilities to deliver on their agendas. We can all sign up to those agendas, but will there be follow-through, and is the necessary funding available? In the economic challenges subgroup’s report, I referred to the fact that there is a tendency for funding to be based on historical allocations rather than on a planned approach based on the implementation of strategies. We are caught up in past funding decisions rather than working on the basis of present needs.

881. Secondly, cross-departmental collaboration is critical. The issues that we have already discussed — careers, management development, links with further education colleges and schools, and economic development — cannot be taken forward if Departments are working in isolation. There must be strong links between DEL, the Department of Education (DE) and the economic development agencies in order to progress the relevant and appropriate aims. In

the absence of those links, departmental silos might override our common objectives.

882. Thirdly, we need to examine the education infrastructure; David Dobbin has already mentioned this issue, on which we have a shared view. Higher education receives an allocation of £230 million; further education receives an allocation of £163 million. The extent of DEL's influence in this sector is variable. Universities in Northern Ireland operate under charters, and they can decide what they want to do. David Dobbin has already spoken about the important issue of reaching agreement on the economic contribution of universities.

883. I asked for a profile of students in further education — whether they were full-time or part-time students and what they were studying. An interesting point emerged. In that, in 1999, priority skills areas were identified to help the FE sector to move forward. Currently, only 30% of students are studying in priority areas; 64% of students are studying general vocational skills; and the rest are in the hobbies and lifestyles category. No one questions whether a child can do A-level English or A-level chemistry. It is a question of supply and demand. For maximum benefit, we need to join the dots between the FE sector, the universities and the economic development agencies.

884. The fourth theme to emerge from our research was the approach taken to professional and technical skills. People often have outdated perceptions about the nature of vocational training and the quality of FE provision. The EDF skills subgroup's view is that further education is critical in widening the options available to young people. An increase in the number of smaller colleges would help to crystallise and develop that sector. However, we need a different mindset about vocational professional and technical, skills, because they can be undervalued.

885. Expenditure on skills development could be driven by a GB initiative. Why does Northern Ireland, with a population of one and a half million, have 13 sector training councils and 25 licensed sector skills councils? The reason is that England and Wales have that number of councils, and that is not necessarily the best

logic to use in trying to develop a training infrastructure in Northern Ireland. Departmental officials did not agree with us on that issue. We must focus on the needs of our local economy.

886. Finally, it is important to set some parameters that will establish, as Dr Dobbin has been doing in his area, where the future skill needs are. The work that the Department has started in that area is important in the context of the expert skills group.

887. I have a written paper, which I shall leave with members when we are finished.

888. **The Chairman (Mr McClarty):** I thank Mr McAleavey, Dr Maguire and Dr Dobbin for those interesting and informative presentations. No doubt they have generated a number of questions in members' minds.

889. **Ms Ritchie:** Thank you for coming along today. We seem to have met on various occasions now.

890. Dr Dobbin, in your submission, which follows on from last week's, you say that we need more PhD students in five specified technology areas. Do you think that that is an area in which some of the economic package could be invested? What do you see as the benefits and costs of those initiatives?

891. You also referred to the fact that our two universities are developing an economic development plan. When will they have that ready? It could inform some of our work, given the limited nature of our timescale.

892. **Dr Dobbin:** The costs will be part of the report that the two universities are working on, to some extent. The subgroup could contact Prof Gerry McCormac at Queen's. He is working with both universities, and he presented the draft report. I could contact him and ask him to get in touch with the subgroup.

893. When we talked initially about nanotechnology, the universities said that £1 million a year would make a big difference. I do not know whether that figure would scale up, meaning that the five sectors would need £5 million. Some of the sectors have currently more PhDs students than others. We have asked

that, rather than come along with ad hoc requests, the universities give us a proposal across the economy. It may well be that some of the money might come from the redirection of existing spending. For nanotechnology, they are talking about £1 million per annum making a big difference and taking us from under-provision to being well provided for. I am assuming that the sort of spending levels that they are talking about across all the sectors would be £3 million to £5 million. However, the universities are looking for money for other things as well. We have not asked them to tell us what they want but how much they want, what we would get for it, and how it would make a difference.

894. **Mr Paisley Jnr:** Thank you for the informative presentation. I have a couple of quick questions and one substantial one.

895. When will John Gilliland's report on agrifoods, and the universities' report, be ready? Can we have access to them?

896. **Dr Dobbin:** John Gilliland's report on the food foresight exercise is complete and documented, and he presented it at an EDF meeting this week. I can contact him and get him to forward the report to you. It is now in the public domain. The agrifood sector is now looking at how to take the report forward, based on the recommendations that it contains on what areas should be looked at and what we should be doing. That report is available.

897. We can get you a draft of the universities' report. I will contact Gerry McCormac today, if the subgroup will tell me whom he should get in touch with.

898. **The Chairman (Mr McClarty):** The Committee Clerk.

899. **Dr Dobbin:** If somebody will contact me —

900. **Mr Paisley Jnr:** We can do that in the margins of the meeting.

901. To liken the Northern Ireland economy to a car, it is driving along reasonably well. There are some structural problems; a bit of rust on the chassis; it might need some new wheels and a couple of go-faster stripes. Generally, it is

moving along, but it wants to be in the fast lane and to take off.

902. Based on what you gentlemen have told us, there are a couple of things that we can do. We can pull over and do a restoration job from the ground up, which will cost money that we might not have. Alternatively, we can pull over, open the bonnet and stick a turbocharger in, and get out into the fast lane. Bits might still fall off, and it might eventually need to make a pit stop at some future point.

903. What would the turbocharger look like? What do we need to put in to really make the Northern Ireland economy take off into the fast lane?

904. **Mr McAleavey:** That is a hard one. That is what we are trying to find out.

905. There is much argument on the subject. We do not know what the cost would be if we decided to pursue the outcome of one or all of the five or six scenarios that we are talking about creating.

906. We have all examined the issues and considered what form a quick fix might take. The subgroup has focused on matters such as fiscal incentives. We have discussed matters such as corporation tax, but none of us believes that one measure alone will fix it or make the difference. We have all come to the conclusion that we need a number of measures in place, such as foreign direct investment, skills, infrastructure, R&D, and innovation.

11.15 am

907. **Dr Maguire:** To use Mr Paisley Jnr's analogy, we have a car that is moving forward. There are times when different people are steering, working the gears, and working the foot pedals. It would be nice if we all worked in unison so that we could all go in the same direction.

908. As for the skills agenda, the medium-term issue is to ensure that what we are doing is bound up in a manner that places investment in areas in which it is needed, so that we can build and raise the skills levels in areas of need.

909. There are two answers to the question of where those skills are needed. First, we must set

out our stall and state precisely the areas on which we wish to focus. The expert skills group will be examining, in a manner that has not yet been decided.

910. Secondly, one must examine the DEL skills strategy in deciding the areas that require more funds. If one examines the profile of DEL expenditure on management development, one sees that that is quite low — something of the order of £1.3 million. Let us not forget that there are many others occupying that sector. The universities do management development work, as does the private sector. We must consider how to bring that together so that the sum total is bigger than the individual parts.

911. We must also consider the skills that are provided to those in employment and how we can maximise and up-skill what people do in the workplace. Raising skills levels can contribute to the longer-term objective of creating a more attractive economy.

912. **Mr Paisley Jnr:** I certainly agree that, in the immediate term, we must seek a united voice on what we want the future of the economy to look like in order to get us to our destination. We need that united political voice, but we also need a united business voice that can inform us. We certainly do not have a united voice at a political level, but that does not exist at business level either. We must get to the point at which we really can agree on the issues and move forward.

913. There will be negotiations in the next few weeks with the British Government. All the parties represented here will attend those negotiations. Others who have come before this subgroup have told us not to sign up to anything until we secure a financial package. They told us that we have optimum strength before we sign. In the next few weeks, what demands of the British Government should be on our blank sheet of paper? What demands must be fulfilled before we sign on the dotted line?

914. **Dr Dobbin:** One of the difficulties that we have in answering that question is that we are here today to represent the EDF. I gave evidence last week as to what the business sector would do. If we were to ask that question

to the EDF, there would be a different answer, because it includes stakeholders from trades unions and the voluntary sector.

915. There has been general agreement within the EDF on the four key drivers that we have discussed today: infrastructure; skills; enterprise; and innovation. Besides those drivers, there is the issue of fiscal incentives, on which there is no unified consensus, particularly when one considers the trades unions' views. There is no consensus on whether fiscal incentives alone will be the big weapon or the silver bullet.

916. In my opinion, leadership is the big dimension that would make a difference. I do not wish to be controversial, Ian, but I do not think that anything will happen until we have local politicians who are accountable to the electorate; who have Northern Ireland's best interests as their top priority; who are listening to local stakeholders; who are agile; and who can override the wheels of government and the bureaucracy of our Departments. The car is hardly out of the garage — no one wants to drive it fast or take a chance in case they crash or run out of petrol. We must get the car out and put the foot down. It takes leadership to do that.

917. Civil servants will persuade you that, if you take the car out onto the road, you might get a puncture; so they will pack a puncture repair kit. The car might run out of fuel; so they will pack a can of fuel. By the time that the car is loaded down with all the anti-risk provisions, it has not moved. Political leadership is required.

918. The Southern Irish economy is different from that in Northern Ireland in that the public sector works with elected representatives and business to get things done. Here, the public sector has almost become the Department of sales prevention. One reason for that is our culture. There are good people in the Civil Service who want Northern Ireland to do well, but the system is built on stability and preventing things from happening quickly. A political hammer is needed to break that; we need devolved Government.

919. I must leave as I have another appointment, but I have started quite a row. *[Laughter.]*

920. **Mr Paisley Jnr:** Chuck a grenade and run.

921. **Dr Dobbin:** Everyone is so encouraged by the work of the subgroup. A wide range of stakeholders — not simply people from the business community — could sign up to the subgroup's report. It would also be largely accepted by trades unions and the voluntary sector. There may be areas that they would like to see more or less of, but it would be generally accepted. Those sectors are very enthusiastic about how people with different constitutional viewpoints can come together to put economic benefit first.

922. To summarise my answer: we need leadership and intervention. We need Ministers to tell civil servants when something is not good enough and to encourage them to find a way to make things happen — to proactively attempt to find a cute way round the problem. Our guys will analyse a problem to death, and that is the difference. We know what must happen; we just cannot make it happen. You guys could, so we need to get your car out of the garage and into the fast lane. *[Laughter.]*

923. I accept that there are all sorts of reasons that devolution cannot happen: there are constitutional hurdles; criminality hurdles; policing hurdles. You guys could spend the whole day telling me those reasons. When I get up in the morning, I do not think about those things first. I talk to my kids, my wife and my friends; we do not talk about those things first.

924. Let us try to build a better way. None of you will argue against building a better way of life for our citizens. To do that, a clever way of boxing the constitutional issues needs to be found, allowing those issues to be dealt with in time, and another way needs to be found to open the box of things that we all want to get our hands on: a better way of life; jobs for our young people; secure homes for our older people; better hospital treatment; better schools; and better roads. We need all those things.

925. The DUP could sign up to it; Sinn Féin could sign up to it. Indeed, all the parties could sign up to it, but yet we cannot get the car out of the garage. Leadership is a vital ingredient to

make those things happen, and leadership will drive forward the subgroup's ideas.

926. With that, Chairman, I must leave. I hope that I am not attacked on the way out.

[Laughter.]

927. **The Chairman (Mr McClarty):** Thank you very much, David. What are you doing on 11, 12 and 13 October in St Andrews?

[Laughter.]

928. **Mr Weir:** For a moment, I thought that you were going to say July.

929. **Mr Paisley Jnr:** He is playing golf.

930. **Mr McAleavey:** David enjoys doing that. However, the EDF is in full agreement on his point about leadership. The big issue for the forum concerns how priorities are set. The ambivalent situation that has existed for so long means that things move very conservatively. The risk-averse culture has really taken hold and it needs to be broken; only the political leadership of a Government can do that.

931. **Mr Paisley Jnr:** What will happen if the leadership is constrained in an apparatus within a framework? Before the rubber hits the road, we need to get a signed-up deal on finance with the Government. What would be on the blank page of that deal? We must identify the critical issues so that, when we do put our foot on the pedal, the car goes in the direction that we want it to go.

932. **Dr Maguire:** At this stage, we know the range of activities in which we need to be involved. They are presented in the subgroup's report. As the report is being refined, what needs to be done is becoming clearer. It comes back to the issue of leadership.

933. Taking the skills agenda as an example, you can invest more money in developing skills. You can invest more money in management development or training for adults. However, unless you are in the driving seat in order to ensure that the dots are joined up, you will either under-deliver or the money will not be spent as intended. You cannot divorce the two; throwing money at this problem will not solve

it. Money is part of the package, and you need to put that package together.

934. In a small way, one benefit of the EDF has been to bring together cross-departmental views and to challenge the silo-based approach. If that happened at ministerial level, things would get done.

935. **Dr Birnie:** Thank you for coming to the subgroup. I have two questions.

936. First, most experts think businesses must network, cluster and work together more. How can that be promoted?

937. Secondly, I want to ask something with particular respect to Michael's contribution about independent careers advice. John Dallat, Roy Beggs and I feel a sense of déjà vu about that issue. It has been going on for some time, and we thought that we had dealt with it five years ago through the Committee for Employment and Learning. How will independent careers advice be undertaken? Clearly, you are right.

938. **Dr Maguire:** I shall deal with your second question, and Seamus McAleavey will answer the first.

939. I was struck by a conversation that I had with a grammar school headmaster at a conference that we held on careers advice. I asked him how careers advice was undertaken in his school. He told me his teachers' hierarchy of duties: their subject came first, followed by departmental administrative work, followed by careers advice. He reckoned that he could improve the school's careers service were he allowed to appoint a qualified teacher to dispense careers advice.

940. My response was to advise him not to do that, because those who give careers advice to young people often have a vested interest. The careers advice that is given to young people often contains a lot of misinformation. Take, for example, the training shortage that now exists in the ICT sector. A number of years ago, people were advised not to enter that sector, so it is now experiencing a lag in recruitment.

941. Moreover, not everybody requires the same degree of support, advice and independence

when it comes to careers advice. That is why the model that should be proposed must be first examined closely. I would not be in favour of simply throwing more money at schools in order to increase the number of careers teachers.

942. Dr Birnie asked how an objective, independent careers service could be put in place. My personal view is that it should be sited outside the schools system entirely. A range of information from a variety of different sources could then be accessed. Those young people who need a more intensive and supportive approach to careers advice can obtain that either through what currently happens in schools or through independent careers teachers.

943. The delivery model is important. One benefit of the conference that I attended was that recommendations on professional independence, and so on, came out of it. Therefore, it is a case of so far, so good. The next question to ask, however, is what an independent careers service will look like. My view is that an independent delivery mechanism is needed, because I am not convinced that the schools would be best placed to deliver it.

944. **Mr McAleavey:** Roy and David were in attendance when the permanent secretary of DEL reported to the EDF meeting on Tuesday that an independent careers advice service would be put in place for us all — from school onwards.

945. Apparently, many people are saying that the incentive for schools is to keep kids in the schools that they are already in. The FE colleges make that point very strongly.

946. **Mr Ford:** As the husband of an FE lecturer, I should probably declare an interest.

947. Unfortunately, David Dobbin has disappeared. I specifically wanted to follow up on a number of his points. However, I shall ask instead about the broad theme that arose from Ian's questioning. Michael Maguire, in effect, said that the DEL skills strategy is a good thing but then questioned Departments' ability to deliver.

948. David talked about the foresight exercises and, specifically, the weakness in the agrifood

industry. That was highlighted in John Gilliland's presentation at Tuesday's EDF meeting. The one problem that I had with his presentation was that he said that we need a champion; it is unclear to me where the champion for the agrifood industry will come from.

949. Seamus McAleavey made the interesting suggestion that we suffer from a lack of enterprise culture. He included the public and voluntary sectors in that. Ian had a point when he said that we must know how much money we shall demand for what from Governments as part of a settlement. How do we build the capacity to deliver that involves government, including MLAs; the business community; the voluntary sector, and trades unions?

950. How much has the success in the Republic been down to its having a much better partnership model than we have seen here? How much do you think that the working of the EDF could help that become a realistic achievement rather than its simply being an exercise in starting to bring people together?

11.30 am

951. **Mr McAleavey:** I have been a member of the EDF for quite a while, and it is far from the partnership agreements that they have in the Republic, because the EDF is an advisory body to the Minister. We have not reached the stage where differences are well aired and argued over before agreement is reached. The EDF must get to that point, because that would add something.

952. Everyone agrees that we have a problem with enterprise and in creating a more enterprising people. Risk aversion is the dominant force in the public sector economy of Northern Ireland. That is therefore where political leadership is needed, and much also depends on performance management. Michael Maguire knows more about that, because his company has carried out such work in the South, where there seems to have been a cultural change to a "can do" attitude in public service. Presumably, people are rewarded — and not just financially — to encourage them to do things quickly, take risks and be measured in the round. We do not have that in the North.

953. **Mr Ford:** Do we need to scrap the Public Accounts Committee? Sorry, John.

954. **Mr Dallat:** That was my question.

955. **Mr Ford:** Is there a problem with our risk-aversion culture?

956. **Mr McAleavey:** It is a matter of how it is used. Public servants are sometimes measured on one issue; that does not happen in the private sector, where judgement of performance is much more in the round.

957. **Ms Ritchie:** No PAC. *[Laughter.]*

958. **Mr Dallat:** I am glad that we have dropped the analogy of the car and innovation. At one stage I thought we were going to develop straight-through exhausts for raising turkeys. We could have greased nipples for frogs as well.

959. Perhaps we could pick up on the last point, because it is important. How would you change the Public Accounts Committee to ensure that there was still accountability and that the level of service to the public was maintained? Any new Assembly — and certainly my party — will address that issue, but let us hear what was wrong.

960. **Dr Maguire:** No one questions the fundamental importance of the Public Accounts Committee. It is important in holding the public sector to account and in ensuring probity in public finance. No one disagrees with that.

961. However, there has been too great an emphasis on compliance, and I have no doubt that that has led to a risk-aversion culture in the Civil Service.

962. I remember the media hype around the situation in New York concerning the Northern Ireland Tourist Board and expensive bottles of wine.

963. **Mr Dallat:** Which was a scandal.

964. **Dr Maguire:** Perhaps you were involved in that. That missed the point. At that time I was working with another tourist body in New York, and I can tell you that unless people from the industry were brought to a good restaurant and looked after well, they would not even entertain

you, because Northern Ireland is such a small place. The question is not so much what was spent on a bottle of wine, but how many people came from North America to Northern Ireland?

965. One area in which the PAC could develop its thinking is in examining outcomes, without always focusing on inputs. One of the difficulties of a compliance report that simply looks at inputs is that it makes people risk-averse. No one wants to be caught out; no one wants to be brought before a Committee and told off for what they are doing.

966. Compliance reports are important, but I am not sure that we examine outcomes enough, and that is an issue.

967. **Mr Dallat:** I am sure that all those suggestions could be taken on board. It was not the bottle of wine that bothered me, but the spa services.

968. My next question is more important. Until a few years ago, it was common for some teachers to tell pupils who had not done their homework that, if they were not careful, they would end up working in a factory. I am sure that that does not happen now.

969. There is still a problem with vocational education, so much so that it is now called “professional and technical skills”. I do not agree with that; vocational education is highly honourable.

970. Links between schools and colleges of further education are very welcome, though, as you say, they are not evenly spread. I know that it works extremely well in Limavady. Outside of that, I do not know.

971. Is it not time to look at the overall education system, which vigorously promotes academia, but classifies 75% of students as failures? Is there anything to learn from models in the Republic, where community schools were developed in the 1970s? Is there a parallel between the community schools in the Republic and the community colleges in North Carolina?

972. **Dr Maguire:** Those are interesting questions. Previously, I was asked about A levels. My view is that they are important.

Employers understand A levels, and they provide a good route for those who want an academic education. Good schools in Northern Ireland produce good students at A level who go on to university.

973. I do not want to get into a debate about the Costello Report, but it focused on specific issues, two of which were selection and grammar schools. I am nervous lest, through the education reform process — and I am not speaking now on behalf of EDF — we break up what is good in the education system. The grammar school system is good, and so is the A-level qualification. However, it is not right for everyone. Therefore we need to broaden the range of options that are available to young people.

974. I agree with you that professional and technical skills, as they exist in some FE colleges, are top class. However, there is a perception and baggage associated with that. The EDF has a role to play in encouraging the wider community to value that sector. I have raised that with the EDF. It could help to end the perception that it is a failure to be in the FE sector and to not do A levels.

975. That does not mean that we should stop doing what is good in the education system; it means that we must broaden the options. That is one of the benefits of what the Department of Education is trying to do, and it needs to be encouraged. However, quite often it focuses on the wrong things. The debate about education reform has led to discussion about curriculum development, broadening options and school performance. My personal view is that if schools are not doing well, they should be closed. Let us improve those parts of the education system that are bad, rather than simply attack what is good.

976. **Mr Beggs:** You have said that only 30% of students are in the high-priority skill areas. That is a dreadful situation. Presumably, those are areas in which there are job opportunities and likely vacancies. There is a need to address the needs of the economy. Independent careers advice is progressing very slowly. That is another indication of the slow pace of change. An Assembly Committee identified that as an

issue in a report five years ago. Other than changing the careers advice that is available to students or pupils in schools, what other mechanisms need to change so that our FE and higher education colleges reflect the needs of the economy?

977. You said that there is a collaboration fund of about £3 million, and you expressed a preference for that money to be spent in FE rather than HE, in order to improve links between small companies and educational establishments. The HE sector is remote from most small companies, whereas the FE sector is more spread out throughout Northern Ireland, and has better contacts with small firms. What reasons have you for preferring the money to be spent in FE as opposed to HE?

978. **Dr Maguire:** You have made several points, Roy. Good local links exist between employers and the FE sector to assist in developing the curriculum and courses that are specific to employers' needs. There are some very good examples of good practice in that area, and that needs to be encouraged.

979. However, the risk of using that approach on its own is that it can be a short-term exercise. Employers will look at what they need this month, next month or this year, and that can drive the curriculum. We need to complement that — and, to be fair, this is what the Department wants to do — with a top-down view that there are two or three areas, either in the development of generic skills or in particular areas such as nanotechnology, that we want to get involved in. In the main, the FE sector is probably closer to employers because of the nature of the local links. It has a much greater capacity to influence the shape of provision.

980. My point about the 30% of students in high priority skills areas was that getting more students to take those priority subjects was as difficult as turning a tanker. We can set out our stall and list the areas in which we are going to work, but when a student turns up at a college to decide what course they are going to do, that is their choice. How do we measure that individual choice? It can be done through the funding mechanism or by strengthening links

with employers. That comes back to careers education, because people can be told that if they do one thing they can get a job but if they do something else they will not. Young people will vote according to where they need to go. That is what pushes us in that direction. Dr Dobbin and I have spoken about this before. The economic alignment, for want of a better word, of the work that is coming out of the universities will be important, because it will begin to crystallise the contribution of the universities to economic development. However, the links with the FE sector are closer.

981. **Mr McAleavey:** The FE sector can make links with small businesses more easily. Northern Ireland is a small-business community, and the vast majority of people are employed in small companies. Many of them would see themselves as being way down the food chain from the universities. The FE colleges believe that they can do something in the way of local R&D for those people, and there are some good examples, such as the Greenshoots-Newry Ltd incubator units in Newry and Kilkeel Institute of Further and Higher Education. That needs to be enhanced.

982. **Ms Stanton:** It was good to hear your presentation on the integrated approach. When we talk about opportunities for all, we really have to believe it ourselves and break down the old system. Although we are talking about colleges, A levels and universities, we have to talk about a younger age group. As a parent who has one child at Queen's University, one at college and three at grammar school, I believe that we have to look at the individual needs of every child. If we do not change that old system in which the academic path is more highly valued than skills education, the economy will not progress at all. We are not identifying the needs of the individual, and there will not be opportunities for all. The brain drain out of the Six Counties will continue unless we recognise that situation and underpin it. Only then will the economy be successful.

983. **Mr McAleavey:** There is an argument that greater intervention in a child's early years would have the biggest payoff. The work that

we have done in Northern Ireland is limited and has depended on specialist funds. The best example is the Urban Community Initiative on the Shankill Road. European money was put into a resource to work with children under five years old. That was because the situation with the 11-plus failure rate was so dire. The local community, voluntary organisations and others got together to run that. Usually, once those special funds run out, they are gone. We have not had a co-ordinated approach to deal with that issue.

984. **Ms Stanton:** Young people have their own individual qualities that appear in different ways. It is about recognising that and breaking the status quo. Otherwise, nothing will move forward.

985. **Dr Maguire:** I am coming to the view that if you build it, they will come, so to speak. Investment in education will result in a pay-off for the economy. We do not need to be too prescriptive; there needs to be some consequence in where we invest in education, but giving people the opportunity to progress, whether through an academic or a professional and technical route would pay off in the long term.

986. It is a very small anecdote, but a senior civil servant in the Republic of Ireland told me about one of the major multinationals that had located in the Dublin area. After it had gone through all the financial packages and spoken to various universities, it actually spoke to local schools and was very impressed by the quality of people in the local school system.

11.45 am

987. **Ms Stanton:** Research has shown that a child's birth order in the family can have an effect on his or her future. There should be an integrated approach so that everyone has the same opportunities.

988. **Dr Maguire:** One of the themes to emerge from the work of the skills subgroup is the need to champion and value professional and technical skills, as well as an academic education.

989. **Mr McAleavey:** The big argument in the United States at the moment is that investment

should be focused on the knowledge economy, or the creative economy. It follows the talent; it no longer follows grant support. The leaders of the new technology industries will not just place their investment where the Government give them extra money to do so — they cannot afford to. They will not be bought to invest their money in the wrong place. The important issue for us is how to develop the talent.

990. **Mr Smyth:** I have one question, one observation and one point of information.

991. You talked about building knowledge transfer between business and higher education. One thing that you should be aware of, and which did not come out in your evidence, is that knowledge transfer has a very low priority in higher education. The real emphasis — wrongly in my view — is on research and the Research Assessment Exercise (RAE), and no real progress will be made on knowledge transfer until that issue is addressed.

992. With regard to the agrifood foresight report by John Gilliland, I did some work on a similar exercise with Teagasc, the Irish Agriculture and Food Development Authority in the Republic. I wonder whether Mr Gilliland is aware of that or whether he has dipped into it. It was a comprehensive exercise, completed about nine months ago, and it may have some relevance.

993. To help the subgroup to meet its terms of reference, could we have some clarity on the Economic Development Forum's analysis of Northern Ireland's key problem? Do you agree that that problem is low productivity and the need to tackle it and close the living standards gap?

994. Several witnesses have suggested that — although it is not a silver bullet — the sufficient condition for closing the productivity gap, to use a mathematician's language, is a corporation-tax break. All the other measures dealing with skills and so on are important and necessary conditions, but they are not sufficient to be used on their own within any kind of reasonable timescale.

995. **Dr Maguire:** I refer the subgroup to EDF's booklet 'Working Together for a Stronger Economy'. As Dr Dobbin said, the EDF, as a coherent body, has not expressed a view on corporation tax because of the variety of different stakeholders in the organisation. If you asked me that question when I was wearing my Business Alliance hat — which I am not — my response would be the same as the previous time that we met, which was that there is a menu of options and that is one of them. However, going for that option on its own is risky. The EDF has not discussed whether corporation tax is the solution.

996. **Mr McAleavey:** Our position in the voluntary sector is similar. We do not think that a corporation-tax break would work on its own. If it were introduced tomorrow morning, I do not think that it would change everything — it is not magic. Our trade union colleagues on the EDF have a strong view that they do not want to race to the bottom. They also believe that the economic changes that took place in the South started to happen before the corporation-tax cuts kicked in. They believe that it was not the key factor.

997. **The Chairman (Mr McClarty):** Seamus and Michael, thank you very much for your evidence. I am sure that members found it extremely helpful, and it will add to the debate.

998. **Mr McAleavey:** Thank you. We will leave a copy of 'Working Together for a Stronger Economy' for members. It is fairly straightforward and easy to go through. Some members may have already received copies.

999. **Dr Maguire:** I have hard copies of my presentation.

1000. **The Chairman (Mr McClarty):** That session overran slightly, but it was important to give as much time as possible to those giving the presentations.

1001. Michael Smyth, who has collaborated with Graham Gudgin, will now review the evidence to date. Copies of Michael's papers are contained in the members' packs for today.

1002. **Mr Smyth:** The papers that I have submitted are, respectively, a summary of my

understanding of the evidence to date and a framework for considering the issues that we must confront. My presentation today is slightly more developed, and I will talk members through it.

1003. This is rather embarrassing: the presentation is on my other laptop. In essence, the key issue on which we must reach some consensus — and Graham Gudgin agrees — is holding the line in relation to the "dismal science". I look to Esmond Birnie to support me on that.

1004. We must be clear on whether the subgroup agrees on the nature of the economic problem that faces Northern Ireland. One consideration is the legacy of conflict: our economy was produced by circumstances unique in the United Kingdom. Over the past 40 years, public expenditure has been used, with the best possible motives, as a surrogate or substitute for private sector investment. That has produced the economy that we have today and, sadly, the distortions that were discussed in evidence. Two slides from my presentation, which I am unfortunately unable to show to members, demonstrate one of the main distortions apropos the evidence that we have just heard: the average non-manual earnings in the public sector are a degree above the average non-manual earnings in the private sector. In a normal economy, it should be the other way round.

1005. The second slide shows the situation in Great Britain. Not only does it show that average private-sector earnings are higher than those in the public sector, but it shows that the gap is widening, as one would expect, because of development. The opposite is true of Northern Ireland, and, during the past decade, there has been no sign that that earnings gap is narrowing.

1006. That is a product of the pervasive influence of the public sector here, which has happened for the best of reasons. Coupled with that, Northern Ireland — compared with its nearest neighbour, the South, and the United Kingdom — has had a relative dearth of value-added foreign direct investment. There has been some, but the consensus view is that it has not

been of the right type. As a result, Northern Ireland is a lower-wage, low-productivity economy.

1007. The evidence given thus far has shown that the key economic problems in Northern Ireland are low productivity and the low-wage levels that go with that. The challenge is to determine how to boost productivity levels in Northern Ireland within a meaningful timescale, and, in doing so, close the gap in average living standards with the rest of the United Kingdom. The time constraint has been understated. Evidence from Victor Hewitt of the Economic Research Institute for Northern Ireland states:

“It is clear that on present performance there is no prospect of the Northern Ireland economy making significant progress in converging with the average in the UK never mind the Republic of Ireland in the lifetime of anyone now present.”

1008. Furthermore:

“Continuing to do what we have always done will by and large produce the results that we have always achieved.”

1009. The question is whether we are prepared to accept that.

1010. In his evidence to the subgroup, Sir George Quigley said that the challenge was to find ways to develop and implement a new model that delivers a high-value-added, export-driven and well-balanced economy. He highlighted that that would close the persistent wealth gap and the growing productivity gap between Great Britain and Northern Ireland, and still more between the Republic and Northern Ireland. Sir George cautioned that only a highly productive economy is capable of remaining competitive and, therefore, sustainable.

1011. My strictly economic interpretation of the evidence so far is that there seems to be consensus that a corporation-tax break would form a large part of the solution to the economic problem. However, it is not a silver bullet. Why is it so important? Victor Hewitt suggests that new instruments, of a different order of magnitude than have existed hitherto, are needed.

1012. The proof, or exemplar, of the power of low corporation tax is on our very doorstep, in the Republic of Ireland. Victor Hewitt also said that no other big ideas are floating around. In my examination of the evidence, I have not found any other big ideas floating around. I am minded of Mrs Thatcher’s famous, exasperated TINA words — “there is no alternative”. Frankly, Graham Gudgin and I believe that there is no alternative.

1013. Why is the focus on corporation tax? Time and again, we have heard about the simplicity of a lower corporation-tax rate versus other fiscal incentives such as enhanced capital allowances or R&D tax credits.

1014. The evidence on R&D tax credits shows that, in the short term, they will have relatively little impact on the Northern Ireland economy. They take a long time to kick in, and, in the meantime, things move on.

12.00 noon

1015. One may ask how the productivity gap will be closed. Consensus on that is unambiguous. Foreign direct investment will lead to higher productivity and will drive up wages and living standards; that is unambiguous. FDI jobs pay between two and four times the average earnings in the Republic of Ireland, and the working hypothesis of the Economic Research Institute of Northern Ireland’s (ERINI) research is that the average FDI job is factored in at twice the average earnings. The subgroup should bear that in mind. It may be more, but that is the assumption that ERINI is making.

1016. Evidence from the economist intelligence unit, which is provided in today’s written evidence from the Industrial Task Force, shows that global FDI flows will continue to increase, particularly on a transatlantic basis between North America and Europe. Furthermore, until 2010, the Republic of Ireland will capture 1.58% of those global FDI flows. That is the equivalent of almost \$5,000 per head, and if that were applied pro rata to Northern Ireland, it would be the equivalent of £4 billion per annum. That would be greater than the amount of FDI that Northern Ireland has had, per annum, over the past decade.

1017. My next question — if you accept my interpretation of the evidence, and you might not — is how long might corporation tax and the subsequent FDI flows take to close the productivity gap? We might have our first insight into the answer to that question in Victor Hewitt's paper that is tabled for today; I have not seen it yet. He is trying — independently of David Greenaway and Frank Barry — to produce for the subgroup a flash estimate of the scale of FDI that we might expect and how long that would cross over with the shortfall in tax revenue. I do not know what the business case is, so I do not know how long it would take to close the productivity gap.

1018. I will move away from corporation tax soon, but first I will consider how the modalities of the corporation-tax break for Northern Ireland might work and how they might come about. The Azores case, which I have read several times, points up three qualifying conditions that Northern Ireland must meet. If Northern Ireland meets those three conditions, it is my understanding that a corporation-tax rate in Northern Ireland that is lower than the UK average would not contravene EU state aid rules.

1019. The first condition is that Northern Ireland must be politically and administratively autonomous within the UK, which means that there should be a devolved Government in place. The second condition is that the Northern Ireland Government must unilaterally decide to introduce the differential corporation-tax regime, without reference to central Government. That means that the devolved Government should have tax-varying powers. The third condition is that any tax revenue shortfall, resulting from the corporation-tax derogation, should not be made up by a fiscal transfer or grant from the national Government, but from within the existing fiscal arrangements. Northern Ireland would, therefore, have to take the hit and make up the tax shortfall from within its own public expenditure resources. Those are facts, and I am giving no views on them.

1020. Witnesses have brought forward a number of points in relation to persuading Her

Majesty's Government to agree to the corporation-tax break. First, there are the political arguments that are yet to happen, and I will say no more than that. However, I have pulled some evidence together on the economic arguments. I remind the subgroup of Northern Ireland's asymmetrical position within the United Kingdom. Northern Ireland is the only region of the United Kingdom that has a land frontier with the euro zone. That land frontier is the Republic of Ireland, which has undergone an economic transformation in the past 15 years. Comparisons are odious, but we keep making them.

1021. Thirdly, there are the distortions caused by the differing fiscal positions on either side of the border, which go to the heart of the Azores decision. The key criterion for the European Commission is that a subregional derogation of tax must not create tax distortion. We are already dealing with huge fiscal tax distortions. Is anyone in any doubt about the effects that the distortion in the corporation-tax differential has had here? I also remind the subgroup of the differential in excise duties, from which, I take it, we are all guilty of benefiting. Then there are the distortions created by the VAT differences, and our struggle to get a coherent response from Her Majesty's Treasury on the landfill and aggregates tax. Thus, we are the victims of fiscal distortions of an unprecedented scale in the United Kingdom, and that is an important argument.

1022. Furthermore, Northern Ireland's legacy of political violence has long been recognised by our Government, by the Southern Government, and, more importantly, by the European Commission. The EU Special Support Programme for Peace and Reconciliation in Northern Ireland — the Delors programme — explicitly recognised that, and was followed by the Peace II programme. For many decades, we have successfully pleaded a special case for additional resources from Her Majesty's Treasury. We cannot do that any longer, but the precedent exists.

1023. There are other issues, such as double taxation and the displacement effects in the rest of the United Kingdom of a derogation on

corporation tax here. Would Northern Ireland suck away investment from the rest of the UK if businesses took advantage of a tax break here? What would the Southern Government's attitude be to a tax break here? Those are very real issues.

1024. That is my broad summary of the big issues from the evidence thus far.

1025. I now turn to the rest of the economic package. I had a severe case of *déjà vu* this morning. Last week, the Business Alliance urged a ring-fencing of spending in key areas of public policy for what it termed "a honeymoon period". In particular, it urged that the industrial development budget be ring-fenced in the context of increased foreign direct investment flows.

1026. As expected, there was consensus in the Business Alliance that the £30 million energy package — previously agreed with Ian Pearson, Minister of State with responsibility for the economy — that was deemed to violate state aid rules should somehow be used to offset the impacts of derating and other cost pressures on the manufacturing industry because that would be within state aid rules.

1027. Furthermore, the Business Alliance urged further education colleges and universities to play a more proactive role in economic development, and that view was echoed here this morning. Some plans on that are forthcoming. It called for evidence-based policies, prioritised by ease of implementation, economic impact and other criteria.

1028. The Business Alliance urged us to look seriously at prioritisation in the skills agenda. We have the necessary skills strategies, but we may not be prioritising and funding them effectively. It emphasised the importance of finding routes into worthwhile jobs for those with zero or low qualifications. It raised the fundamental "top and bottom" issues, or vocational education: how to retain our best and brightest, but also how to find worthwhile careers for those with few, or no, qualifications. There was some development of those arguments this morning.

1029. The Industrial Task Force, in addition to its evidence on corporation tax, put forward a human resources agenda aimed at tackling underachievement in primary and secondary schools and strengthening the role of further education colleges to enable them to respond more effectively to the needs of their locality, especially in the context of foreign direct investment. It cited the US community college model, on which the research is encouraging.

1030. The Industrial Task Force (ITF) urges that the output of higher education should be moulded to better fit the changing profile of our economy — perhaps that echoes an earlier point — and that measures to tackle adult literacy and numeracy, which are seen as serious barriers to getting on the lifelong-learning ladder, be introduced.

1031. The Industrial Task Force stresses the importance of measures to address economic inactivity. I discussed this with Graham Gudgin; it is a bit like motherhood and apple pie: it is a big, big issue. Legislation and policies are forthcoming on it. We need to consider that issue in more detail when we discuss item 3 in the subgroup's terms of reference. Furthermore, the ITF urged the establishment of a unit in the Executive to co-ordinate the human resources agenda in its totality.

1032. Turning to innovation, the ITF called for innovation-oriented, multifaceted policies. Logistics, products and processes, business models and marketing: all of these are capable of innovation. The ITF raised the question of whether INI, as it is presently constituted, is not quite fit for purpose, which raises serious implications for INI.

1033. The ITF called for the establishment of a technology sector to help businesses to benchmark and reposition themselves within their sectors. Work on that is taking place, but the ITF urged that it be systematic.

1034. The ITF also called, as did EDF, for more PhDs in the areas of life sciences and engineering, etc.

1035. According to the ITF, tourism, which was for so long the Cinderella industry in Northern

Ireland, holds the potential for a more even spread of employment opportunities. Evidence provided shows that Northern Ireland might not be exploiting its existing tourism assets effectively. That theory could be developed during this afternoon's focus group.

1036. InterTradeIreland referred to North/South opportunities. Graham Gudgin and I agree that the rationale for policy co-ordination on a North/South basis must be underpinned by the identification of market failures. It must be shown that the two jurisdictions, acting in partnership, can give a more cost effective solution to market failure than when they act independently. To that end, there are four broad areas where North/South collaboration on policy co-ordination is possible. They are: science, technology and innovation; labour market skills formation; trade and investment promotion; and enterprise and business development. That is purely private-sector activity. For wider economic co-operation, there are opportunities for the joint supply of public goods, such as health and education services, transport provision, waste management facilities, and environmental services.

1037. To meet its terms of reference, the subgroup must come to a balanced view on the key problem facing the Northern Ireland economy. The majority of the evidence suggests that the main problem is low productivity, which is leading to low wages, low skills formation and lower living standards. If that is correct, the solutions will be found by determining the necessary condition and the sufficient condition. Is corporation tax the sufficient condition? Are measures such as higher levels of public expenditure, ring-fencing investment in skills and training, reform of the secondary and further and higher education systems necessary, but not sufficient?

1038. I hope to be able to help members to come to a conclusion on those issues in this afternoon's session.

1039. **The Chairman (Mr McClarty):** As the first session overran, we asked Michael to tailor his presentation to the time available. Therefore,

in just 20 minutes or so, he has given us the microwave-oven version. I thank him for that.

1040. Members may wish to ask questions. There will be an opportunity to do so over lunch or at the focus group this afternoon.

12.15 pm

1041. **Mr Weir:** I do not want to restrict anyone who wants to ask questions, but if we are having a focus group session, it may be more appropriate to ask them then rather than the slightly disjointed approach of asking some now and going back to them again.

1042. **The Chairman (Mr McClarty):** Well, everyone has to have lunch, and it would be unfair to some if they had to ask or answer questions during the lunch break.

1043. May I impress upon members the importance of a quorum this afternoon. The session will begin again at 1.15 pm with presentations from the parties. That will be followed by a presentation from John Simpson. Please be here so that those sessions continue at the scheduled times.

1044. **Mr Weir:** I will be here until about 3.30 pm, but I will have to leave then.

1045. **The Chairman (Mr McClarty):** Members, thank you.

The subgroup was suspended at 12.16 pm.

On resuming —

1.23 pm

(The Chairman (Mr Molloy) in the Chair.)

1046. **The Chairman (Mr Molloy):** I remind members to switch off their mobile phones, as they interfere with the Hansard recording system.

1047. The next item of business is the parties' position papers. Some have been produced already; others have still to be submitted. Each party will have 15 minutes to make its presentation and to take questions. The Alliance Party will lead off.

1048. **Mr Ford:** Is every party making a presentation this afternoon? I assume that all the papers we have just received will be spoken to, but there appears to be one missing. May I ask Sinn Féin what its position is?

1049. **Ms Stanton:** Dr Dara O'Hagan, who is our economic spokesperson, is preparing a shorter version of our paper. It will be submitted.

1050. **Mr Ford:** So it is not just our policy staff who write papers that are too long.

1051. There is no point in reading through the paper. I intend simply to highlight a few points, in the expectation that there will either be some discussion on those or that the wider discussion later may inform views. The first part sets out the key points, which are largely a summary of what has been said before. One point has been queried by some witnesses this week: the need to direct investment towards redressing the needs for capital investment in infrastructure, both human and physical. We believe that that must be included. We cannot say that the infrastructure will look after itself. We must ensure that the infrastructure is in place to underpin economic development.

1052. Corporation tax is a key, but unresolved, issue. We have to wait for the results of the research that is being conducted on that issue.

1053. We must be careful about establishing our position correctly with the Treasury. This morning, Mike Smyth informed us of the European Court's decision on the Azores, which gives us some hope for movement — subject to

devolution, which is still, of course, undetermined. If adjustments are made to corporation tax, we must ensure that that encourages innovation and foreign direct investment (FDI) and is not merely a reward for those people who are already comfortably off, in that they will pay less tax. It may be difficult to make that judgement. The benefits of FDI — which will consist of large companies investing in Northern Ireland and paying the higher rate of corporation tax — will be in direct opposition to our encouragement of existing small and medium-sized enterprises (SMEs), where there might be some benefit in reducing the profit threshold of £300,000.

1054. There is a case for R&D tax credits, although that idea is not generally accepted. Over a long timescale, R&D tax credits could be beneficial in promoting the high-value-added businesses that we want to develop. However, the associated bureaucracy would be a major problem, especially for SMEs. Northern Ireland has suffered from a grants culture over the past 30-odd years, and tax credits, as opposed to grants, would send out a more positive message.

1055. A case can be made for maintaining the cap on industrial rating at about 25%. That could be important if we run into problems with corporation tax, because it has been established that that is acceptable under European state aid rules.

1056. The subgroup has had general discussions on social exclusion, and I am not sure how specific we will be. We should concentrate on establishing measures that directly help individuals in areas of social need into profitable and worthwhile employment. Our discussion paper refers to one or two peripheral issues.

1057. We must examine cross-border incentives, particularly clustering and co-operation. This morning, we talked about the co-operation model in the Republic. We must find a similar model, because SMEs in Northern Ireland have many problems.

1058. There are real issues surrounding the drive toward public-private partnerships (PPPs). The Alliance Party has no objection to PPPs as such, but even witnesses from the business

community have said that there is a danger when the proportion of public expenditure committed to PPPs is seen against the potential fall in public expenditure. That could lock in certain operations and create little opportunity for growth and innovation. One witness said that if we received an economic package, we should pay off the mortgage rather than extending it. We could then use further incentives for export-based growth and the creation of wealth.

Increased household taxation, in the form of higher domestic rates bills, the proposed water tax, and so forth, will reduce economic activity.

1059. Without labouring the point, I repeat that the Alliance Party has estimated that £1 billion a year of public expenditure is wasted on dealing with the direct and indirect costs of segregation. Government research is being conducted that may be more specific on that figure, but I can give one obvious example: we have 50,000 empty school places, and in a few years that will grow to 80,000. A modest investment would ensure that the existing facilities are better used. Similarly, we need to develop a culture of shared civic space to enable wider access to the jobs market; that will benefit both those seeking employment and those running businesses. It is crucial that economic development be conducted in line with the Government's policy document, 'A Shared Future'.

1060. As I said earlier, we should examine the social partnership model in the Republic. We must have sufficient resources to ensure that the strategy for private-sector growth gets off the ground and that we develop the social capital to allow that to happen.

1061. My party has referred to tax-varying powers, and in particular to our belief that we should abolish the regional rate and replace it with local income tax. I shall not embarrass Mr Smyth by referring to what he said at lunchtime, but there are real issues about ensuring that we get the best possible taxation system and are no any longer in the current position, where the money to fund RRI is being raised through the second most unfair tax possible: the regional rate. The only thing worse would be a poll tax.

1.30 pm

1062. Transport is a key area where investment is needed. A lot of road development — for example, the Westlink — is being driven by business considerations yet, because we have not had sufficient investment in public transport, those roads are clogged up by commuter traffic. The Enterprise express train and the Metro buses show how investment in public transport can free up roads and have major benefits in reducing pollution and for the local economic situation.

1063. The subgroup has not considered tourism in sufficient depth thus far. Rates relief is an issue, because some aspects of tourism are relatively capital intensive in comparison to the service industries, which are more labour intensive.

1064. Alliance has highlighted the need to ensure adequate childcare support. In recent years, there have been a number of problems with the dependence of childcare support on European funding from the Peace programmes and, on occasion, that system's having failed. Similarly, this morning has highlighted the need to look to education policies to enhance collaboration between schools and colleges and to develop the enterprise culture at secondary and tertiary level.

1065. Our final point is on sustainable development. We have seen significant innovations in Northern Ireland, not just on the obvious things like biomass energy, where Northern Ireland has a significant natural advantage, but in firms that make equipment for solar panels, and so on. However, there are bureaucratic hurdles in the way of using those natural resources for domestic energy, and we have not yet provided adequate support for those who wish to develop alternative energy systems as an industry. That is an area where Northern Ireland has the potential to be a major leader on the world stage. In part, it is already a leader, and we must work on that.

1066. **Mr Weir:** Like the Alliance Party, we have submitted a paper. There is no point in going through it word for word; I will pick out the key points. I regret that the paper has only

recently arrived with members. It is hot off the press.

1067. In accordance with the remit of the subgroup, we have tried to divide the issues into various sections. All the parties will agree that the economic package is inextricably linked to the idea of fiscal incentives. Fiscal options play a vital role in any economic package. Other parties will refer to corporation tax, although it could be argued that that should come under the heading of “Fiscal Incentives”.

1068. We support strongly a wide-ranging financial package for Northern Ireland. That is not pleading for special treatment; there must be some recognition of the unique situation in which Northern Ireland has found itself over the past 35 years and the damage that has been done to our economy by the troubles.

1069. Any economic package must be properly targeted. It must be directed at actions that will benefit Northern Ireland as a whole, and, in particular, at measures that are sustainable and will benefit business. If we were simply to seek a dividend of additional resources for the public sector, many of the problems that have been identified in the imbalance between the public and private sectors would be perpetuated.

1070. Public-sector spending must be protected at its current levels.

1071. On that basis, we do not believe in any rolling back of public-sector expenditure in an effort to rebalance the economy. Instead, we believe that money, in the form of an economic package, should go into measures that we hope and believe will boost growth in the private sector. Our view — and we hope that of all the parties — is not that the public sector is too big, but that the private sector is too small. That is the thrust of our paper.

1072. Northern Ireland is in a unique situation, not simply because of the economic outcome of the events of the past 30 years, but because of our geographical situation: we are the only part of the United Kingdom with a land border.

Owing to what we have suffered over the years, there have been huge obstacles in attracting outside investment and in retaining indigenous

firms. Our location on the periphery of the UK and Europe has placed additional costs on industry here.

1073. Our proposals state that a very large infrastructure gap has been created over the past 30 years, largely as a result of the need for public funds to go into the security budget. That has created a distinct disadvantage. An infrastructure fund must be targeted at roads, rail, air, ports, water, sewerage and telecommunications. That fund should not simply be focused on existing infrastructure, but could be used to lever funding from outside, for example, from Europe.

1074. Our principal focus — which many others have mentioned — is on the need for a range of measures, although there is no silver bullet to solve every problem. However, we strongly support Sir George Quigley’s view on corporation tax. We believe that fiscal measures, particularly on corporation tax, are, as Sir George said, an “indispensable element”. We echo remarks drawing a distinction between necessary actions that must be taken and sufficient actions that can lead to changes in the economy.

1075. I am loath to quote from any exponent of the dismal science, and I know that — as with all issues of economics — one will not necessarily get consensus among economists. I am reminded of the remark that was once made of economists: that if every economist were stretched around the equator, end to end, they still would not reach a conclusion. Despite that, there is as much consensus on corporation tax among economists as one will get. We believe that there are compelling arguments for that measure. As Sir George Quigley said, although there will be political difficulty in convincing the Treasury, our best option is to dig in on this matter. We can apply pressure.

1076. We favour a headline corporation-tax rate of 10%. That would be the biggest single action that we could take on fiscal measures. However, we would also look at measures that would affect fuel duty and aggregates tax. Again, the land border has created problems in those areas.

1077. We concur with others that, at this difficult time, if we are trying to rebalance the Northern Ireland economy, the last thing that it

and business need are additional financial burdens. In particular, we have concerns about the removal of industrial derating.

1078. The DUP welcomes the fact that the Government have agreed to set up a working group on this matter, albeit under a degree of pressure. However, we believe that industrial rates should be capped at the current rate of 25%. We also believe that the Government should address Northern Ireland's disproportionate insurance and energy costs.

1079. In our paper, we identify a couple of areas in the community that have directly suffered as a result of the terrorist campaigns and others that have been left to lag behind as regards a peace dividend. We propose a fund for isolated Protestant communities in border areas, which have been particularly targeted by terrorism. We propose targeted investment in deprived unionist areas that have been left behind.

1080. The DUP supports action on rural poverty, and while we support the principles of RRI, some of the terms negotiated for it were punitive. It is important that those terms are renegotiated in a way that will lead to reform in the public and private sectors, rather than simply requiring higher taxes. Going down the road of higher taxation will be self-defeating.

1081. Although the DUP appreciates the points made about the conditions that could be applied to corporation tax, we are highly sceptical that Northern Ireland should have much in the way of tax-varying powers. There are concerns that, if there were opportunities to vary the rate of income tax, the Treasury would use that as a device for saying: "You have the option to add an extra 5p to the rate of income tax; we assume that you are using that extra finance, and we will cut the block grant accordingly." The DUP believes that a lot of care should be taken before we go down the general route of tax variation, because that would lead to unfortunate consequences.

1082. The DUP supports the need for targeted resources in the form of enterprise zones. There is also an inherent unfairness in the rating system. For obvious reasons, changes to the rating system have focused on the effect on

domestic consumers. However, there are also implications for business rates. That matter needs to be re-examined.

1083. Our paper highlights our concerns about water charges. I believe that there would be consensus on that matter.

1084. Finally, I turn to the last two points in our paper: if we sell significant assets and if there are savings to be made from the Review of Public Administration (RPA) — and I use the word "if" advisedly, because many of us are sceptical about that — those savings must be made available to reduce the rates burden, rather than simply allowing them to be swallowed up by the Treasury.

1085. It is important that there is flexibility on any Barnett consequential and that there is an opportunity to use those consequential to contribute to the general grant factor and potentially keep rates down. The DUP believes, at the broad level, that if we can keep to a reasonably low-tax economy, that will provide a degree of incentives.

1086. That is where the DUP is coming from. I have covered most of the points in our paper.

1087. **Ms Ritchie:** Chairman and members, you have been given a copy of the SDLP paper. Like other members, I will highlight the main points and emphasise what should be in an economic dividend or package.

1088. Suffice it to say that the SDLP believes that the unique circumstances and history of the North of Ireland merit particular consideration and support as regards the rebuilding of our society and economy.

1089. With the Budget heavily skewed for so long towards security spending, our economy is suffering as a result of the direct consequences of the conflict itself since partition and of the indirect consequences of the infrastructure deficit. Those are some of the challenges that we must address.

1.45 pm

1090. The focus of our proposals is on leveraging additional support and enough headroom from the Treasury to ensure and enable significant

capital investment in hard and soft infrastructure while protecting our householders from the punitive effects of rate charges and protecting our capacity to maintain and enhance public-service delivery, on which our future depends.

1091. It is important that the subgroup tries to achieve an agreed approach and negotiating position in order to secure the best response from the Treasury. It would be detrimental to our case to adopt a fractured approach, because the Treasury could see Dutch auction emerging and decide to back off on the issue.

1092. We acknowledge the point that successive direct-rule Ministers have made about the need to rebalance our economy. Various parties in Northern Ireland and social partners make that point regularly. Our economy can be rebalanced only in the context of positive investment in private-sector growth. I accept Peter Weir's point that we have a weak private sector. However, we should not attack the public sector. There is a need for both to be pump-primed and operating in parallel. As a result of the unique circumstances to which Mike has already referred, such as the history of the conflict and the nature of our historical development, we have a weak private sector.

1093. We seek long-term strategic capital investment, even if the funds are ring-fenced for such purposes. Obviously, that must be additional investment. We seek the fiscal latitude to adjust taxes that affect our competitiveness and inhibit the growth of our private sector. If the Government are serious about promoting growth, they must be serious about tackling the barriers to it so that we can protect and nurture it.

1094. We want to see investment in research and development and in promoting a culture of entrepreneurship. Those issues have already been raised in the various submissions. Investment is also required to address the barriers to business growth and to help innovation and competition.

1095. We want to tackle urban and rural poverty and disadvantage. Deprivation indicators highlight the range of challenges that our economy faces and the imbalance in opportunities across the North. With our dispersed, rural population,

we shall probably face higher costs for using public services.

1096. On that basis, we want funding, and we want the economic dividend to be concentrated on infrastructure and balanced regional development. To address those regional disparities will mean major investment in roads, rail and public transport across the North of Ireland, tackling areas of underdevelopment in order to deliver long-term growth in public transport, particularly in disadvantaged areas, and looking at the issue of telecommunications, because roaming charges have yet to be addressed on a North/South basis.

1097. There must be investment in our ports, taking on board the fact that the majority of trust ports want their status declassified, so that they will be better able to trade. Although it is mentioned in the Strategic Road Improvement Programme, which is currently subject to consultation by the Roads Service and the Department for Regional Development (DRD), the upgrading of the Belfast to Derry road has been earmarked, from memory, for 2015. That road and other areas highlighted in that programme that require infrastructural development must be fast-tracked. There should be investment and resources made available.

1098. Investment in the North/South rail network, particularly between Dublin and Belfast, must be secured in order to shorten journey times and to improve and contribute to the economy. The same applies to the Belfast to Derry routes.

1099. An all-Ireland transport and infrastructure body must be created. The results of the collaborative strategy on both spatial planning strategies must be looked at, because that was supposed to help to address the infrastructure and economic deficits that partition caused. Support must be given to the creation of sustainable and balanced economic, commercial and employment opportunities. We also require investment in order to implement the Regional Transportation Strategy.

1100. Investment in renewable energy and support measures to eradicate fuel poverty are needed. We must make good the

underinvestment in water and sewerage infrastructure.

1101. That does not mean that we should double-tax the people of Northern Ireland — financial measures should be put in place.

1102. The SDLP believes that job creation is another factor for consideration. Tax relief and rate relief should be introduced to offset spending on research and development. A new enterprise growth fund should be created, comprising loan and equity funds to work together to increase the number of business start-ups, promote the social economy enterprises — in rural areas — and to enhance the all-island business co-operation model.

1103. A menu of reliefs should be established for businesses facing the end of industrial de-rating, which was mentioned by previous contributors.

1104. There should be investment in a North/South strategy to maximise overseas investment, building on such trade missions as the recent one to India and the other one that was to take place.

1105. We should implement the 20 key actions of the Irish Business and Employers Confederation (IBEC)-CBI joint business council.

1106. An all-Ireland research fund should be set up to develop capacity in target areas. The Business Alliance referred to that last week, and the EDF talked about it this morning.

1107. We would welcome an all-island special programme for university research (SPUR) to capitalise on available innovation.

1108. Economic and social dividends for the whole community would be generated by the release of under-utilised public land and assets and the further release of military bases.

1109. Investment in our tourism industry is necessary, as is the establishment of properly funded further education colleges and training schemes.

1110. Moreover, several all-Ireland funds could be created. That said, the SDLP believes that there must be a political imperative from the Irish Government to partly fund many projects.

1111. My colleague Mr Attwood referred to that matter in the House earlier this week as regards the police college. The Irish Government have already provided part-funding for the City of Derry Airport; however, there must be a political imperative to do so on their part. We must move from talking to doing.

1112. In that respect, there is a need for strategic capital funds to support infrastructure and capital spending.

1113. Furthermore, there should be services, community and enterprise funds, and a common fiscal platform. A single all-Ireland corporation-tax rate of 12·5% should be created.

1114. As well as North/South funds, British-Irish funds should be established to enable the island's different Administrations to come together to promote innovation and support pilot projects.

1115. The SDLP wants to see concentration applied to soft infrastructure and the barriers to growth. Capital investment in health and education is essential for the general well-being of the economy and of our population.

1116. With rapidly diminishing housing stock and growing lists for public and social housing — particularly in certain geographical areas — and severe pressure on first-time buyers, there is a need for major investment in social housing programmes.

1117. We must develop accessible and affordable childcare and support integrated early-years care.

1118. We need to examine the Skills Strategy for Northern Ireland and programmes that address the skills of the unemployed and the economically inactive.

1119. Additional financial support must be secured to widen the access to education for many of those who have been unable, unwilling, or reluctant — perhaps because there was no incentive or impetus — to pursue it. Specific extra funding should be dedicated for mature students, disabled students and students with dependents, with the express intention of growing our economy and ensuring that we

emerge from the dependency culture. For so long, that ability has been denied to us.

1120. **Dr Birnie:** I am very happy to make this presentation on behalf of the Ulster Unionist Party. Our ultimate objectives of prosperity, fairness and sustainability in the Northern Ireland economy and in society can, and should, be obtained through promoting the competitiveness of that economy and the cohesion of our society.

1121. An important point is that an economic package, whatever its size, will not be sufficient to solve all our economic and social problems. However, although it may not bring that good outcome, it is very probably necessary. An interesting parallel can be drawn with what could be considered the greatest peacetime economic package in global history: the Marshall Plan of the late 1940s. It contributed to the economic recovery of countries that were ravaged by the Second World War, such as Germany, France, Italy, etc. However, almost certainly, it was not the ultimate explanation for the rapid growth in those countries in the 1950s and 1960s.

1122. The package should centre on three broad types of investment: in skills; in infrastructure; and in promoting the cohesion, or equity, of our society. Investment in skills is discussed in our submission. With respect to adult essential skills, it is a human and social tragedy that an estimated 250,000 adults in Northern Ireland lack the basic abilities to read and count. Since 2002, there has been an essential skills strategy. That is welcome, but it has dealt with not much more than 10% of that 250,000. We suggest that more needs to be done in that respect.

1123. There is an obvious need for more higher education places. That is evidenced by the continued substantial migration of young people from Northern Ireland at age 18. Some go willingly, and to that there is no objection. However, we suspect that a large percentage are unwilling migrants and, therefore, are unlikely to contribute to our economy and society in the future. Our submission also highlights the role of the further education sector.

1124. With respect to R&D, the submission emphasises public-sector investment. Evidence suggests a continued shortfall, particularly in

spending on the universities. Public-health investment is interesting. In many of the public-health league tables, which list cases of obesity, stroke, heart disease and certain types of cancer, Northern Ireland is at the bottom, not just in a British Isles context, but in a western-world context. Surely, if we could prioritise preventative and public health, we could transform Northern Ireland's position on those tables in some of the areas of chronic ill health. That would be a major contribution to human and social well-being. It would also be economically beneficial. The subgroup has heard how much higher Northern Ireland's rates of sickness and long-term-illness-related economic inactivity are, compared not just to Great Britain, but, even more so, to those of the Irish Republic. Some of the social and economic costs of the various illnesses are outlined in the submission.

1125. Further investment in railways is important to tackle a problem that was highlighted in the media earlier this week: congestion. Congestion has a major impact on many of our lives. The average worker in the Greater Belfast area might spend between one and two hours each day travelling to work. Congestion affects other parts of the Province too. That has an effect on everyone's well-being and has a broader impact on pollution levels, carbon levels and global warming. Therefore investment in more fuel-efficient transport is needed to encourage the shift from the private car to public transport. Some form of rapid transit system within the Greater Belfast area — out to Newtownabbey, Lisburn and Bangor, for example — would assist that. Upgrading the rail and public transport networks is also desirable.

2.00 pm

1126. We have all seen the horrendous figures on the shortfall in water and sewerage investment that has built up in the direct-rule period. Perhaps £3 billion of capital spending will be required to address that. There is a strong case, in equity terms, for making an approach to the Treasury. After all, when the English water service was privatised in the late 1980s, it got a green dowry to wipe out the costs of making necessary environmental improvements. Why

should we be treated differently? Why should private households have that burden put on them?

1127. There is a strong economic and environmental case for investment in energy efficiency.

1128. In the area of investment in social cohesion, special needs education — given the hammering that that sector received in recent budget stringency — is an important priority, as are literacy and numeracy. We must try to prevent that tragedy from replicating itself in future generations. Spreading IT literacy, and ensuring free personal care for the elderly — following the Scottish Executive's example — are also essential.

1129. In conclusion, any economic package must be additional to the Northern Ireland budget. There is no point in the London Government giving with one hand and taking with the other. We have not said much about incentives, because we know that we will be working on a separate paper dealing with that matter, but there is a sense in which some of the economic package may be used to pay for some of those incentives. As a witness to the subgroup suggested, perhaps the money that would have been spent on the Ian Pearson electricity price reduction for industry — which, of course, never happened — should be used to cap industrial rating at the current level of 25% rather than allow it to increase, with all the subsequent damage, to 100%.

1130. We also note that, due to the Strategic Investment Board, the Northern Ireland Investment Strategy and public-private partnerships, Northern Ireland is gradually building up what will become an increasingly onerous mortgage, which we will be paying off over the next quarter of a century. If additional moneys can be secured from the Treasury, some could be used to control and reverse the growth of public-sector debt.

1131. **The Chairman (Mr Molloy):** Perhaps Mike would like to present a summary. Do parties have any questions at this stage?

1132. **Mr Weir:** I appreciate what Esmond has said about a separate document dealing with

fiscal incentives, given the structure of our papers. However, each party has touched on the issue of corporation tax and linked that to an economic package. I know that Esmond has reserved his position on the basis that that subject will come up later.

1133. **Dr Birnie:** It is sub judice.

1134. **Mr Weir:** Is it possible for Esmond to clarify on behalf of the Ulster Unionists its position on corporation tax and whether it sees that as part of an economic package?

1135. **Dr Birnie:** As I said in the Assembly debate — though we are still collecting evidence — at this time it looks as though the balance of the economic evidence suggests that a corporation-tax reduction would have more impact than tax credits and allowances. However, we must distinguish the question of what is theoretically best from what we are most likely to get from the Treasury. We also have to bear in mind the implications of the Azores case on our public spending block.

1136. **Mr Weir:** I am not trying to score points but, in the wake of the debate, some newspapers placed a slightly different emphasis on that matter. When you say that the balance of evidence suggests that a corporation-tax reduction would be more attractive, is that an Ulster Unionist view, your personal view as an economist, or both?

1137. **Dr Birnie:** I hope that my view is compatible with the general party view.

1138. **Ms Ritchie:** I am mindful of David McNarry's proposition last week about North/South collaboration. What are the DUP and UUP views on that? I do not expect one member to answer for both parties.

1139. **Mr Weir:** I could make an attempt at that. *[Laughter.]*

1140. **Ms Ritchie:** I am sure that you could. I am not seeking to embarrass anyone. What are your views of North/South economic co-operation and collaboration, and where do you see us going from here, since — as Mr Smyth said earlier — we have a land border with the euro zone? From a pragmatic point of view,

how do we capitalise on the various things that could unite us? We are trying to get rid of the problems of the past and to improve the economy for everybody.

1141. **Mr Weir:** Broadly speaking, the DUP tries to take a reasonably pragmatic approach on economic co-operation. Perhaps, in the past, some people on the unionist side would have described it as collaboration rather than co-operation — I am just quoting the member opposite.

1142. **Mr Beggs:** Which party background are you referring to?

1143. **Mr Weir:** From a pragmatic view, we are keen and happy to see co-operation in matters of mutual economic benefit. The DUP believes that it should be looked at on a case-by-case basis.

1144. **Ms Ritchie:** Or a project-by-project basis.

1145. **Mr Weir:** Or a project-by-project basis. It is not necessarily a one-size-fits-all situation. First of all, is there a case for co-operation? There are certain aspects of the economy that will be in competition, and therefore it may not be appropriate. The DUP also believes that it should be pragmatically and economically driven, rather than being done for political purposes. Any benefit might come from co-operation on an all-island basis, or it might be more localised, such as co-operation between businesses, sectors or regions. The DUP would take that on a case-by-case basis. It is not a one-size-fits-all situation.

1146. **Dr Birnie:** Like Mr Weir, I will clarify which party I am speaking on behalf of: given something that was said on ‘Good Morning Ulster’, which I did not hear, I want to emphasise that this is the view of the Ulster Unionist Party and not the Conservative Party for Northern Ireland.

1147. Co-operation is a good thing, subject to two qualifications: it should be accountable to locally elected politicians, and it should be for mutual benefit. Companies act in a global market, and they seek profits. The UUP does not have a problem with Northern Ireland companies exporting to the Irish Republic or buying inputs or sourcing labour from the South. Those

matters are usually governed by the normal working of the market economy.

1148. However, the UUP would have reservations if it felt that policy interventions — which might or might not be designed to correct “market failures” of North/South activity, to use one of Mr Smyth’s phrases from this morning — might sometimes, if excessively driven by primarily political considerations, actually run counter to what makes most sense for the market. There is a danger that we could be promoting North/South trade and economic activity at the expense of promoting it with Great Britain, continental Europe, the United States or the Far East. The proportion of Northern Ireland manufacturing output going to the Irish Republic is already around 11%, and probably rising.

1149. I am not sure whether that proportion can be rationally increased by much, given that the Irish Republic has a market of only 4 million people, whereas the combined population of the 25 countries in the European Union is 450 million. North/South co-operation is a good thing, subject to those qualifications.

1150. Peter mentioned the DUP’s pragmatic approach to economic co-operation: the UUP takes a similarly pragmatic line.

1151. **Ms Ritchie:** My question is to both Peter and Esmond. I take on board what you said and thank you both for your answers and for your pragmatic approach. Does either of you see a case for factoring in some level of pragmatic co-operation, given the potential economic dividend?

1152. **Mr Weir:** Do you mean receiving or giving?

1153. **Ms Ritchie:** It could apply to both.

1154. **Mr Weir:** There could be a case for pragmatic co-operation on certain projects: for instance, the DUP envisages a fund for investment in infrastructure, some of the money for which could come from Europe. There could also be pragmatic co-operation on cross-border projects.

1155. However, as we are trying to make a strong case, most of the money will probably come from the Treasury. I would be surprised,

to put it mildly, if the Irish Exchequer were keen to provide a great deal of money. You may have more sources of information on that than I; However I believe financial co-operation may reach a ceiling fairly quickly.

1156. The Irish Government may want to invest in certain projects, perhaps in order to demonstrate some commitment. However, in practice, the amount of money that could be levered into the economy here would be extremely small. Seeking investment from the South could distract from our case to the Treasury for an economic package. I am a bit sceptical, to put it mildly.

1157. **Ms Ritchie:** Chairman, I am mindful that I am begging your indulgence, but I have a point of information: the Irish Government have already provided funds for the City of Derry Airport. They did so for mutual advantage and demonstrated a pragmatic approach.

1158. **Mr Beggs:** It is a loss-making airport.

1159. **Mr Weir:** I am not aware of that specific example. However, certain cross-border projects may attract funding from both the British and Irish Governments. The same principle applies to cross-border projects in Europe. I suspect, being utterly cynical, that the Irish Government would consider whether a project benefitted their citizens before contributing to it. That is perhaps what happened in the City of Derry Airport, which is near the border.

1160. However, as we are giving practical consideration to economic measures and the money needed to finance them, only a small proportion of that is likely to come from the South. Should the Irish Government want to support a certain cross-border project, the DUP has no principled objection.

1161. If we were to request a large amount of funding from the Irish Exchequer for a project — leaving aside the concerns or principled objections that unionists would have about approaching the Irish Government — it would not result in a significant amount of money and would, consequently, be something of a distraction.

1162. Whatever fiscal measures we take or whatever economic package we seek, it is better

to concentrate our efforts on the Treasury. At the end of the day, it will be the source of funding. Any international funding — although there is probably a case to be made about some level of European funding — whether from down South, America or wherever will have limited practical value.

2.15 pm

1163. **Mr Ford:** Peter and Esmond referred to tax variation. I could parody their argument by saying, “Do not raise the issue or the wicked Treasury will dump on us”. It seems that the Treasury has already dumped on us through the reinvestment and reform initiative. The Executive, through their implementation of increases in the regional rate that were significantly higher than inflation, accepted that. I want to know how much of a danger they believe that to be. That point was made by a spokesperson for the SDLP.

1164. I suspect that the Treasury has got it in for us anyway. Regardless of the mechanism it uses, it will ensure that it gets the money out of us in years to come. A move towards alternative taxes would, therefore, be less dangerous. We consider alternative taxes to be fairer than you suggest.

1165. **Dr Birnie:** It seems that all the parties, to some extent, are moving towards tax-varying powers on business taxes. However, the difficulty is that we would not have powers to vary personal and income taxes but, rather, to increase them. Do we really want such powers?

1166. With respect, I question the Alliance Party’s position that we rely not on a domestic rate based on capital value but on local income taxes. Has any assessment been done of the effect that would have on the average-income family who are on a standard rate of income tax? That has been done in Great Britain with regard to the Liberal Democrats’ proposals. What would be the effect if conventional income tax were combined with the new property-related income tax? Given that Northern Ireland has the fundamental problem of a lack of entrepreneurship and business enterprise, do we want to become the highest income tax region

in the UK and, indeed, have a rate that is higher than that of the Irish Republic?

1167. **Mr Weir:** I share some of Esmond's concerns. There may be some truth in Mr Ford's claim that the Treasury is out to get us. Occasionally, it seems as if the Secretary of State pushes a particular line not because of a political imperative, but because he follows Treasury logic.

1168. If someone wants to hang you, you do not stick your head in the noose to assist them. A case for corporation tax has been made with regard to business, although certain conditions must be applied to enable Northern Ireland to qualify. I have grave reservations about Northern Ireland ending up with a high-tax economy, which would not be of benefit to us. I agree with Edmond on that issue.

1169. Outside the qualified position with regard to corporation tax, a move towards regional variations on income tax would break parity. When Northern Ireland no longer has parity with the UK on income tax, there is no guarantee that there will be parity on social security benefits or any form of public spending. That would open a Pandora's box.

1170. As the leader of the SDLP said, there is a problem with having tax-varying powers on income tax. Even if those powers were not used, the Treasury would have an excuse to say, "You can raise an extra £200 million" — or whatever the figure may be — "as we are going to cut the block grant by that much. If you want to complain, you can do so." Additionality comes into that. I have grave concerns about the Alliance Party's position.

1171. **The Chairman (Mr Molloy):** We must move on quickly.

1172. **Mr Ford:** May I make a quick riposte, Chairman? I seem to be being ganged up on. *[Laughter.]*

1173. **Dr Birnie:** You asked the question.

1174. **Mr Weir:** If you see a couple of sleeping dogs, do not throw a stick at them.

1175. **Mr Ford:** I believe that, under the RRI, the previous Executive put our head in the noose.

1176. **Mr Weir:** As David indicated, at the time, we both felt that the RRI had not been properly negotiated.

1177. **Mr Ford:** I could not remember what party you belonged to at the time, Peter. *[Laughter.]*

1178. **Mr Weir:** That assumes that any remark I made was a party remark.

1179. **Mr McNarry:** You still assume that.

1180. **Mr Ford:** The issue of a local or regional income tax should not necessarily be seen as conflating the general income tax position, if we are considering not paying tax on property as an alternative, as there are significant issues of fairness.

1181. Furthermore, I am not sure that the Treasury is using the Scottish tax-varying powers as an excuse for cutting back on funding to Scotland. There is probably several weeks' debate on that.

1182. **Mr Weir:** The fact that there are around 50 Labour MPs from Scotland, on whom the Government are highly dependent, may be a greater incentive for the Treasury to take that line.

1183. **Mr Ford:** That may well be a factor.

1184. **Ms Stanton:** This is only the second time that I have attended the subgroup. From those meetings, I have gathered that there was a recognition that border areas suffer the greatest deprivation. There was common ground on the fact that that must be tackled on a cross-border basis and that structures must be put in place.

1185. We have talked about the need for 142,000 jobs to be created over the next 10 years. In the 1990s — said to be the golden years of the Six Counties — only 82,000 jobs could be created. We must move in a different direction, but is a radical change in thinking required?

1186. Notwithstanding members taking offence at the existence of North/South bodies, they do exist and they are a way of creating jobs. We all have families in the Twenty-six Counties, and Sinn Féin is an all-Ireland party. We must move forward on that basis.

1187. It is recognised that border areas are the most deprived. The Committee on the Administration of Justice report published last weekend, 'Equality in Northern Ireland: The Rhetoric and the Reality', cannot be contradicted. I do not want to play the bat-and-ball game again, but the research is there, the reality is there, and it must be faced.

1188. **Mr McCann:** Republicans, and Sinn Féin, have never run away from the fact that deprivation exists in unionist areas. It was a bit disingenuous of the DUP to say that republicans have denied that. It would have been much better for the DUP to talk about dealing with deprivation across the board, rather than to sectarianise it in a small sentence in its presentation. That hides, and goes against, all available statistics.

1189. **The Chairman (Mr Molloy):** Mike, do you want to come in on this point? We are pushed for time, as John Simpson will appear before the subgroup soon.

1190. **Mr Smyth:** I will concentrate my summary on the parties' presentations and the subgroup's three terms of reference. The common ground in all the presentations was an agreement that a financial package should achieve sustainable outcomes and measures with a reasonable prospect of addressing fundamental issues, which I shall cover later.

1191. The DUP was pretty unambiguous in its approach to corporation tax, in what is a very pro-business policy statement.

1192. The Alliance Party was slightly more sceptical about the impact of FDI. Indeed, David Ford posed the question of whether FDI works. There seemed to be concerns about the distributional aspect of FDI — the rich getting richer, and so forth. However, the subgroup has not yet considered that.

1193. The SDLP did not come to a clear definitive position on corporation tax but seemed to express a preference for additional financial support. However, Margaret Ritchie mentioned tax measures to accelerate business growth in the private sector.

1194. **Ms Ritchie:** This is perhaps not specific, but I suggested the creation of a single, all-Ireland corporation tax regime at 12.5%. Such an investment in the economy would pay for itself within 10 years in returns to the Treasury.

1195. **Mr Smyth:** So that is de facto support for corporation tax. That is excellent. That is one fewer issue to finalise.

1196. The Ulster Unionist Party placed most of its emphasis on investment — that is, spending. Its presentation contained some proposals for fairly radical policy reform.

1197. Only the SDLP mentioned the North/South dimension, emphasising the need for a higher priority to be given to better North/South co-ordination.

1198. All parties need to prioritise their spending plans and policy reforms. Such prioritisation is lacking in all presentations. The subgroup's terms of reference demand some kind of explicit prioritisation, if possible.

1199. Parties need to determine whether they all agree with the analysis of the fundamental economic challenge, which is low productivity, which, in turn, creates low wages and relatively low living standards. If it can be clarified whether all parties agree with our analysis, we can move on to considering the timescale in which an economic package would make an impact. That will, in turn, dictate the nature of the package. To produce an impact in the medium term, by definition, a fairly radical package is required.

1200. I liked Esmond Birnie's analogy with the Marshall Plan — the necessary and insufficient condition. He seemed to argue that the Marshall Plan was a necessary condition for the regeneration of post-war continental Europe, but that it was not a sufficient condition. By the same token, we must clarify whether members view the spending plans as a necessary condition for the economic regeneration of Northern Ireland, and the tax break — however defined — as a sufficient condition.

1201. One point that no party has touched on requires urgent consideration. The subgroup is meeting in the context of the expected

comprehensive spending review next June. We need as much clarity as possible from the Department of Finance and Personnel on the likely time path of Northern Ireland's public expenditure allocations. The Department will need to be as specific as possible with regard to the likely nominal and real increases beyond 2008 and 2009. Figures that I have seen suggest that the increase will be just ahead of inflation, accepting inflation at 2.5%. I can interpret that as a real resource cut. That will affect the subgroup in respect of the choices that it must make.

1202. **Mr Weir:** I appreciate that it is useful to ask DFP questions of that nature. However, the officials may be risk-averse to the suggestion that you have just made, and DFP may be likely to bat it back to us, with the explanation that that is the departmental view of the current environment and that any final decision will rest with the Treasury. I wonder how definitive the Department's answer will be; it could merely be some vague background information. I am not against asking the question, but there may be limitations in the quality of the Department's response.

1203. **Mr Smyth:** I have seen some figures off the record. The Department is using working assumptions.

1204. **Mr Weir:** Would DFP be willing to put any of those figures on the record?

1205. **The Chairman (Mr Molloy):** The subgroup could perhaps write to the Department and ask for further information.

1206. **Mr Smyth:** I was going to suggest that, Chairman.

1207. **Ms Ritchie:** Mike said that the parties must be more explicit about their priorities. Could you define what you mean by that? I have had difficulty in getting my head round that, in discussions with the Committee Clerk and various officials. It would be helpful if we could try to understand what we should be doing.

1208. **Mr Smyth:** It is difficult for me to do that without being slightly rude.

1209. **The Chairman (Mr Molloy):** You can be rude for today.

1210. **Mr Smyth:** From the presentations that I have received — and I imagine that, had Sinn Féin submitted one, it would have been as long, if not longer than the others — there is a tale in the measures that have been proposed. I could perhaps give the paper some coherence and group those measures under subheadings.

1211. The subgroup's second term of reference deals with the measures that we must take in the areas of skills formation and education. As well as the overall package, that is a particular priority that the subgroup has been given. Therefore, I suggest that that issue be addressed as part of skills formation and education.

2.30 pm

1212. **Ms Ritchie:** It is therefore a matter of what needs to be done to address that in terms of a financial package.

1213. **Mr Smyth:** It must also be addressed in terms of policy reform within our terms of reference.

1214. **Ms Stanton:** Perhaps I am speaking out of turn, but this is only the second time that I have attended a subgroup meeting. The subgroup looked at levels of corporation tax here, in the South and elsewhere, and the widening of the gap between the rich and the poor was mentioned. I would like more information on that before I could reach any decision.

1215. **Mr Smyth:** If everyone in Northern Ireland had his income doubled right now, everyone would have twice as much money. The distribution would not change at all, but the gap would actually get wider. That is what has happened in the Republic. From an economic welfare point of view, is the situation in the Republic now better than it was 15 years ago? Yes, it is. Most parties mentioned the need to grow the private sector as opposed to cutting the public sector. However — although there are deviations from this — in the Republic about one third more people are employed in the public service now than in 1988, but more than twice the number of people are employed in the private sector. That exemplar is indicative of the route we must go down.

1216. **Mr Dallat:** I am not sure how relevant my point will be, but I am sure that Mike will keep me right. I am being extremely positive and assuming that we will have responsibility for our economic future on 25 November. That will leave only a few days within which to produce a draft budget. I raised that issue at the Business Committee meeting last week, which, if I remember correctly, referred it back to the Preparation for Government Committee. I am not sure whether the matter will eventually formulate into a motion for debate, but would that be useful in helping us to set out our priorities — assuming, of course, that we get the inheritance back on 25 November?

1217. **Mr Smyth:** It may be useful if it could bring clarity to the overall package. I am very conscious that the main people scrutinising our report will be the economists in Her Majesty's Treasury. I will try, as far as I can, to tie any suggestions that the subgroup makes into a theoretical economic framework. Prioritising public expenditure and policy reform is the format and structure that we must follow, and I will try to keep the subgroup within that structure.

1218. **Mr McNarry:** I am sorry that I missed this morning's session. Just before lunch, I listened to some comments from the Secretary of State. In case the subgroup is interested, he still likes his residence at Hillsborough as much as he likes the option of looking for another mansion should he become the Deputy Prime Minister. His mind is clearly on the property market rather than focusing on Northern Ireland, but no matter.

1219. He made an interesting comment — and he said it no greater than this — that if we make the case for a lower corporation tax, he is prepared to take it to the Chancellor. There was a sense of challenge in his remark too — he was talking about the CBI. He was clearly on a charm offensive, but it is not clear who he was trying to charm or whether he succeeded — he certainly did not succeed with me, anyhow.

1220. **Mr Weir:** I am not sure that you were the target audience.

1221. **Mr McNarry:** I think that the politicians were the audience. He referred to the number of

us who were there — and the member's absence was noted, by the way.

1222. **Mr Ford:** Prioritisation.

1223. **Mr McNarry:** We have a bigger team to choose from than you.

1224. **Ms Stanton:** That is below the belt.

1225. **Mr Ford:** I noticed that senior members of the Ulster Unionist Party were here earlier.

1226. **Ms Ritchie:** David the Rottweiler.

1227. **The Chairman (Mr Molloy):** Do you have a question?

1228. **Mr McNarry:** I picked up on what Mr Smyth said about prioritisation. We all knew that the subgroup would hit a patch where it would have to address the question that he has put to it. If we are being honest, we will admit that we all knew that because of other circumstances and other timetables we were probably going to dodge it. It is too close to the Ulster-Scots wingding that we have all been invited to at St Andrews for our party to divulge negotiating priorities at a subgroup that has no negotiating status. If that status were changed, we would be very happy to negotiate here, but we are not, and therein is a major difficulty for Mr Smyth.

1229. The difficulty for us all is that we do not know what is going to happen after 24 November. It may be that we, as MLAs, will be redundant and irrelevant; however, the report should not be. I sympathise with what Mr Smyth is saying. We could be more helpful if the negotiations were over, because if I had a clear idea that devolved Government was going to be restored, we could really apply ourselves. However, I am not certain of that. If devolved Government is not restored, it will be a matter of who places himself in a position with the ability to pressurise direct rule. If the rug is pulled from under our feet, we revert to Westminster and councils. None of those bodies will have the clout to deliver a report that they did not write.

1230. We have been given date — 4 October — and we should look for a greater understanding of the fact that Ulster Unionist hands, at least, are tied and that we cannot be as specific as people would want. We still do not know how

the Government will respond. We are talking about a devolved Government responding to this, but we have no odds-on bet that a devolved Government would ever be in a position to respond to it.

1231. Finally, I am still looking for costings, and I hope that we all are. We do not have any costings, and I say that with all due respect. I am not putting the onus back on to Mr Smyth and the officials, but even if he pitched us some costings in the air, there would be difficulties. Let us not go to the auction arena, but, to pluck the issue of special needs out of the report, I am damned if anyone can get a costing for that out of the Department of Education. How do we repair something if we do not know what it is going to cost? That is like going to a dodgy builder.

1232. **The Chairman (Mr Molloy):** This is still the Preparation for Government Committee. It is important that we put a paper together that stands up for whoever is in Government later. Different Governments will respond in different ways, as you say.

1233. Mike's job is to put together a credible paper, whatever the circumstances after 24 November 2006. He will prepare it with as much clarity and information as possible from the political parties, on the understanding that no one is going to negotiate with the subgroup. It is important that that paper is credible, and that is the whole emphasis in coming back to this. It is preparation for Government in the sense that it is what the parties would want if, on 24 November, the institutions were up and running again. That is all that Mike can do at this stage. Perhaps he could carry on working with the parties to create the vision.

1234. **Mr McNarry:** I agree with that, Mr Chairman. I was not disagreeing. Credibility is important — but so is honesty. I am being honest when I say that where we are is holding back full credibility.

1235. **Mr Weir:** I do not want to curtail the debate on this. However, John Simpson has been here for a while, and it would be rude to keep him waiting any longer. We can continue the discussion on those valid points later.

1236. **Mr McNarry:** I did not see John there.

1237. **The Chairman (Mr Molloy):** John, you are welcome to this afternoon's meeting.

1238. Members have in their packs a copy of John's 'Belfast Telegraph' article and a copy of the paper that he has prepared. He will give a short introduction and then take questions on the issue of corporation-tax variation and so on.

1239. **Mr John Simpson (Economist):** Thank you, Mr Chairman, for inviting me back. It is the same room, although some of the faces have changed. The quality has obviously gone up.

1240. I have taken the liberty of preparing a short submission, Mr Chairman, and you will be pleased to know that I do not intend to read it in full. Indeed, I shall jump to the section that, it could be argued, contains some of the conclusions.

1241. The subgroup is searching for a framework whereby it can make a submission that is coherent and persuasive with regard to the economy. I will do my best to help in that. As we commence this discussion, I want to register that it will require some agreement on the prescription, that is, on what you want to do. The diagnosis of where there are problems takes us into the area of appropriate policies and setting priorities. A weakness is that we tend to regard everything as a priority, which means that nothing is a priority. We need to consider what implementation arrangements there are in Northern Ireland. I join the club that believes that while there are many admirable mechanisms in place, there are some that I would describe as less than optimum.

1242. That brings me to the institutions and the personnel in post. You will note that the word "personnel" ends in "el" and not "al". I remember that the last time I was here that there was an important debate about whether a certain word had one "p" or two.

1243. I come to the issue of applying the framework and relating it to the questions that members have asked. I hope that they will agree that the three questions that they posed, or that have been posed for them, overlap significantly. It would not be possible to answer the third

question on the economic package without making some acknowledgement of the questions on fiscal options and the integrated skills and education strategy. Whatever comes out of this, they must be part of the package rather than be left for another day.

1244. Let me make a distinction about the word “package”. What do we mean by the terms “economic package” and “peace dividend”?

1245. Members must consider how they would set that out. I will give them a choice that might influence their thinking. Are they talking about a financial package or an economic package? Some elements of an economic package might not cost anything; they would go through a Budget. A financial package would come out of the overall Budget balance, whether it is current expenditure or capital expenditure. I could make suggestions about an economic package that will not add to the Budget for Northern Ireland but that will simply do things in a different way. They might give members some food for thought.

2.45 pm

1246. The subgroup wants to focus today on the economic package. First, I want to comment on the issue of fiscal options. Mr Chairman, you were kind enough to refer to the recent scribblings of a modest author in a local small-circulation newspaper. If you have had the opportunity to read the article and were still awake at the end of it, I offer you my congratulations. I do have a serious intent.

1247. It is apposite that the judgement from the European Court was issued less than a fortnight ago; people had been anticipating its ruling. I was surprised to learn that officials in many Departments were unaware that that case was going through the system. However, the British Government — I presume that means the Treasury — enjoined the court case. They were allowed an audience at the court and argued that the Portuguese Government were within their rights and that the tax advantage for the Azores that was written into Portuguese legislation should be sustained. At the European Court, the British Government were supporting the Azores

position on lower rates of corporation tax, which is the issue that we have been discussing.

1248. Some people might argue that, as part of a national agreement, we could introduce a different rate of corporation tax. However, the European Court has given a flat “no” to Portugal. Lawyers will continue to tease out the issue. The fact that the European Court has said “no” means that we could think about going down a different route. We might find out what other options could achieve the same result. This is an accident of European legislation, and presumably other countries have frontiers, and businesses may choose to locate on the far side of those frontiers where different corporation taxes apply.

1249. It is significant that the British Government also recently lost a case at the European Court. The British Government thought that they were losing tax revenue, so they wanted to introduce tax laws that stated that if someone locates a business in another country to minimise taxes, but not to do business, the British Government could collect taxes from that person. The European Court said “no” to that suggested legislation. For example, if someone sets up a genuine business in Dublin, the London authorities cannot tax that person at British rates because the business has been set up in Dublin to take advantage of lower tax rates. Therefore the European Court has been moving on two fronts.

1250. That gives us reason to be somewhat ingenious or to seek some level of initiative in this matter. I wished to draw that to members’ attention.

1251. Chairman, I had the privilege of reading the four volumes that you and your friends must have sat late into the night preparing from the first report of the subgroup’s work. Lest you got tired before you got to volume 3, I commend the submission from the Economic Research Institute of Northern Ireland. One of the most fundamental pieces of thinking contained in those four volumes is the argument deployed by Victor Hewitt in the ERINI presentation. He is leading a study on the potential impact of corporate tax changes. Obviously, he cannot produce a report tomorrow, but he is, nevertheless, one of

the best people around to do that work. If that idea is to be taken further, I suspect that Mr Hewitt will be a very relevant contributor to the debate.

1252. I shall leave that matter for a moment, because members may ask questions on it. I shall move on to the second paragraph on the third page of my submission, where I refer to the integrated skills and education strategy.

1253. I should first declare an interest: the Department for Employment and Learning, in its wisdom, has asked me to sit on the expert skills group, which is trying to identify areas where the skills that are available in Northern Ireland should be further developed. I do not wish to detract from the ability to take part in — or from the merits of — that particular approach. However, I still wish the subgroup to register my opinion that we are playing with the problems amid a complete lack of urgency. We have the ambition to improve Northern Ireland's performance in integrated skills and education, but we are not delivering.

1254. In a minor illustration of a matter that is related to that, some members will be aware that DEL is encouraging the further education colleges to increase enrolments and the efforts on six key vocational areas. DEL has been doing that for two or three years. I was able to ask for the figures and whether that strategy was working. When one examines the six key areas, one sees that there have been worthwhile increases over roughly five years. However, when one breaks down the figures into each of the six key areas, one discovers that the real increase is in only one of the six areas. The other five key areas are pretty much doing, year after year, as they did the previous year. That allows me to say that my ambition, which I commend to the subgroup, is that further education colleges be given firmer guidelines on how they achieve their objectives.

1255. I am concerned that further education colleges are still, essentially, free agents that can decide where they place their effort, year after year. As regards a skills and education strategy, we should state that we do not wish to interfere in the operational details of each

college, but that, as a society, we have a view on the type of things that they should be doing. Save for the presence of the subgroup's adviser, we could say the same for a couple of universities. That would not go amiss.

1256. In general, the structure of current work on integrated skills and education answers the question of whether we have the ambition. Has a diagnosis been made? Yes. Do policies exist? Yes. Are policies being implemented adequately? No. That is a theme that I wish to repeat on a couple of the other matters that I will put to the subgroup.

1257. The importance of the strategy for skills and education is critical. We cannot have a package for the social and economic improvement of Northern Ireland unless we address what we are doing for an up-and-coming generation and perhaps some of the adults who will come back to continuous learning. We need a strategy that is operational and becomes quantified. We must have key performance indicators and ask questions every year. We must ask whether the work has been done and, if it has not, there must be some discipline in the system that states that that is not good enough.

1258. I shall move from education to other items that should be included in a peace dividend.

1259. On page four of my paper, I draw the subgroup's attention to five headings. Members might wish to consider how each of those could contribute to an economic package. My definition of economic package would include the phrase "any scope for the improved application of current policies".

1260. Over the past three years, the development of RRI has been a new feature on the economic landscape. I am among those who say that it is overdue and welcome, and that it means that there are new financial arrangements to be developed. The Treasury has moved significantly to allow that to happen. I do not know why it did not happen many years ago, but it has happened now.

1261. However, my concern is that the Strategic Investment Board (SIB) is the mechanism through which RRI is being delivered. That begs the

question of whether SIB is making decisions about our capital programme. The answer is no: it does not have the authority to make decisions about our capital programme. Is the Northern Ireland public sector capital programme prioritised in one institution that has responsibility for ensuring that the programme is delivered? The answer to that is, at best, ambiguous — and it may be worse.

1262. My point is that SIB is not part of the Department of Finance and Personnel (DFP), which is the budgeting Department; it stands to one side. It is a non-departmental public body (NDPB), but it has no authority to commit or spend money; it has only the leverage to offer advice. SIB must be tightened up. We should be absolutely clear about its role, and we should be able to monitor its activities.

1263. The improved functional role of SIB calls not only for the identification of a long list of projects — and SIB would agree with that — but for that list to be prioritised, and for an associated timetable to be drawn up. We have a 10-year strategic investment programme, involving approximately £16 billion. However, we do not have a set of priorities that tells us which elements in which functional areas are most urgent.

1264. It is interesting that, in his first paper to the subgroup, Victor Hewitt made the point that it is easy to sell the idea that RRI should make a major contribution to the school-building programme. I do not want to take away from that idea because, for economic change, we may need to enhance the school-building programme and increase work on our hospitals. However, we need to focus on how to improve the economy, and it may be that that should be given a higher priority.

1265. I suggest that SIB should be committed to a series of signature projects, provided that they are developed in short order, rather than taken over a lifetime. Some members will recognise the phrase “signature projects”, because it has been used recently in one or two parts of Northern Ireland to attract commendable publicity. I have suggested a few such projects in my paper.

1266. I suggest that the SIB — or whoever is responsible — should have a single-energy market functioning on this island by January 2009. There must be no more going around the houses on that matter.

3.00 pm

1267. There is no reason why we now need to have round after round of inter-ministerial meetings and discussions about where we should string the wires in order to build the second cross-border loop. If this were a business, people would be out there today putting up the pylons and hanging the wires on them, yet we are told that that will not happen until much later.

1268. To aid vocational skills, I venture to suggest that it would not be a bad idea were we to say that the new Belfast Institute of Further and Higher Education (BIFHE) buildings should be up and opened by September 2009. The original intention was for the University of Ulster to expand on to the site of the Millennium Community Outreach Centre on the Springfield Road. We know what happened, but none of us could agree that it was a good idea to have spent so long seeking something that did not occur. If we are to improve further and higher education facilities, let us get serious.

1269. Not to please some of the subgroup members, but because I think that it is important, we need to reach a stage at which we are setting dates by which certain infrastructure will be completed. I do not carry the clout, but members might. I would be very happy to say to the SIB that I would like to see a commitment that the Belfast to Dundalk dual carriageway — at least a dual carriageway — should be finished by 2010. Four more years is a heck of a long time in which to do a bit of hard-core infilling and to build a few bridges. Alternatively, lest I divide the subgroup, I add that the dual carriageway from Belfast to Derry city should be finished by 2012. That is not really a bad idea, is it?

1270. **Mr McNarry:** Not a bit.

1271. **Mr J Simpson:** I shall outline one further Belfast-oriented idea. I would like to see the

Westlink expanded to three lanes — from the M1 to the M2 or the M3 — by 2012. At present, the best prospect for that happening is that it will be considered in 2015. Are we serious about developing our economy? Are we serious about good communications and ease of movement playing their part in that growing economy? If we are, something must happen.

1272. To prove that I have learnt where the north coast is, I add a supplementary point. At the Giant's Causeway, we should have an enlarged interpretative centre that serves an educational purpose. It should be large enough to accommodate one million visitors a year. It could also cater for 30,000 school pupils a year, which would mean that every pupil would get to visit it eventually. Could that not be finished by 2008? After all, the original little visitors' centre was burnt down a while back.

1273. Where is the imagination? There has already been a waiting time of four or five years for that project. Nothing on any scale has yet been built. Chairman, I know that this may upset you, so I apologise in advance. Look at the cross-border example of Glenveagh National Park in Donegal. Is there any reason why what will be built at the Giant's Causeway should not be even more impressive, given its history? Do we even acknowledge that that we should build something on that scale?

1274. I have said enough on the investment programme, so I shall move on. The operational framework for urban regeneration needs to be improved, and the institutions must be in place to ensure that that happens. I am one of those people who would be very critical of the lack of an adequate regeneration programme for the Belfast city region.

1275. I use the words "city region", because that is the economic unit. Frankly, what is happening is inadequate.

1276. I shall use a comparison that some of you may have heard before. There is no way in which the plan for the Belfast region to have a population of just under 700,000 in 2015 will accommodate our current population growth. We must be more flexible, because, with the arrival of people from other countries, the

population is growing much more quickly than we expected. It would be at least desirable to plan for the upper, rather than the lower, side of the possibilities, and we should therefore consider a Belfast city region that will accommodate up to 800,000 people. The other city region would have a similar read-across.

1277. I make a point of principle and I have no reason to hesitate when I suggest that Belfast needs the equivalent of either Derry's Ilex Urban Regeneration Company or, for a significant part of the city, a transfer of the Laganside concept. Both point in the same direction — choose whichever you think sets a role model.

1278. Currently, we have no adequate urban regeneration programme for Belfast, and, as a consequence, the economy will be frustrated. Does any of us believe that the Belfast Metropolitan Area Plan is adequate for the purpose? That is the physical baseline in planning.

1279. I read the evidence from the Planning Service, and I looked, in vain, for either defence or advocacy of the Belfast Metropolitan Area Plan. Neither was there. How can the Planning Service comment on the needs of the economy to groups such as this without mentioning the biggest institutional feature on the agenda?

1280. Finally, I recognise that it cannot all be done simply by improving public infrastructure. Account must be taken of spending on incentives for innovation, R&D, knowledge transfers and the endowment of research specialisms. We should ask our DEL to consider how further and higher education institutions can make a bigger contribution. Currently, the game is that the money is allocated in proportion to what happened elsewhere in the UK. That is an implicit restraint on the way in which this economy can develop, and I wish it were otherwise.

1281. The thesis running through all I have said is that we have the ideas. For some years I have watched those ideas, but I am increasingly aware that they are not converted into operational delivery. If I have any criticism of the public sector — hence the reference to personnel and

institutions — it is that statements of good intent are inadequate to meet the problem.

1282. **The Chairman (Mr Molloy):** Thank you very much, John. One of the problems is perhaps that planners spend more time in trying to close down rural development through Planning Policy Statement (PPS) 14.

1283. **Ms Ritchie:** John, you are welcome. Our terms of reference — and our economic adviser — set some tall orders. How do you suggest that we address the economically inactive through the integrated skills and education strategy?

1284. You mentioned the need to tighten up the Strategic Investment Board (SIB), which some say acts as a lever for the Treasury in Northern Ireland. How do you suggest that that should be done?

1285. I do not criticise any of the projects in your list, although I am a little surprised that you have not listed any in the south-east; perhaps that is parochial of me.

1286. **The Chairman (Mr Molloy):** You cannot win, Mr Simpson.

1287. **Ms Ritchie:** Perhaps, Mr Simpson, you could speak of your experience.

1288. **Mr J Simpson:** I will first answer your question on the skills and education strategy, and link it to the issue of the economically inactive.

1289. The subgroup acknowledges, as does everyone, that Northern Ireland has high rates of economic inactivity. We have no full explanation of the reasons for that. However, insofar as it is caused by a lack of opportunities to gain skills, we should be tackling it. Much economic inactivity is voluntary; some of it will be involuntary. The involuntary element is what we ought to be dealing with. Some of the involuntary element is due to the nature of society. A relatively high proportion of the population lives in rural areas. One reason for the high rate of economic inactivity there is that in a proportion of that population, the ratio of incomes per household is lower because a second person stays in the household.

Sometimes the second person is the unpaid, economically inactive partner of someone who works in agriculture.

1290. Your question becomes that of where to focus the skills and education strategy. Part of the answer must be that everyone should have basic literacy, numeracy and IT skills. Northern Ireland is inadequate in that respect, and submissions to the subgroup demonstrate that. Part of the answer must also be that Northern Ireland should have more specialisms in higher and tertiary education. However, once we identify those who are inactive because of lack of opportunities, we must ask, ‘what incentives would be necessary to make them economically active’ whether facilities are available and whether the people concerned have the right incentives to use the facilities. That is a difficult question that can only be attempted case by case. Therefore I do not have a ready answer.

1291. Your second question was about —

1292. **Ms Ritchie:** The Strategic Investment Board and the reinvestment and reform initiative; and how to make them much tighter.

1293. **Mr J Simpson:** Did you say “exciting”?

1294. **Ms Ritchie:** No. I said “tighter” in my County Down accent.

1295. **A Member:** It could be the same thing.

1296. **Ms Ritchie:** It depends which word you want to use.

1297. **Mr J Simpson:** I draw a distinction, and I emphasise it again, between RRI and SIB. RRI is a concept to which none of us would object. However, when we talk of the SIB, we mean delivery mechanisms. I do not know what the SIB was playing at. I listened to how it presented its argument; I read its annual report, which did not meet the targets that I had hoped it would; and I read the submission that it made to the subgroup. The SIB does not have operational accountability at the right level. If it continues — and I have no difficulty with it doing so — I would like it to be the capital programming body for the public sector in Northern Ireland. Full stop.

1298. At the moment, however, the SIB does not even make an input into those elements of the capital programme for which it has not shaped the contracts. The SIB will tell you how much it has helped the contractual system for the two big roads contracts. It will tell you — and it is true — how it has developed the formula for dealing with schools. However, it is not a comprehensive body, and if Northern Ireland lacks anything, it is a comprehensive capital programming arrangement, where priorities are set and timetabled. My little illustrations attempt to show the need to do both.

1299. The subgroup might set different priorities. One of the difficulties for you, Chairman, and your colleagues in the Chamber downstairs, is that if the subgroup attempted to prioritise all the elements in the £16 billion capital programme, it would not necessarily reach consensus. You might have to report that some members of subgroup think that certain elements should be higher.

1300. At the end of the day you have to find a mechanism to resolve that, but unless you have an agreed set of priorities into which you build compromises, there is a danger that you will be doing things all over the place.

1301. I am pleased to say that what has happened to date has avoided some of my worst fears. However, the danger with the SIB is that we might have developed, in this ad hoc manner, a string of contracts that we are sending out to the building and civil engineering industry. In the worst situation they arrive as a dollop on day one, and then there might be nothing for a long while. It needs to be prioritised and put in order. Victor Hewitt takes credit for putting it succinctly in his paper, and I will take credit for saying it to you.

3.15 pm

1302. **Mr Ford:** If we are going to be parochial, I should point out that the road from Belfast to Derry passes through south Antrim. No doubt, Mr Chairman, since you are constrained by what you can say, we also ought to regret that Fermanagh and Tyrone are not mentioned. I am sure that that will get me a brownie point with Michelle.

1303. When you were talking about the role of the SIB, John, I thought you were almost going to suggest that it be scrapped. It seemed to me that you were setting up a role for the SIB, which is actually round the Executive table in room 21 downstairs. That should be where the priorities are set.

1304. In clarifying or reshaping the role of the SIB, where does it fit in? You have highlighted the fact that it has limited powers to ensure that things happen. It seems that much of what you highlight should be driven collectively by the Executive to ensure coherence across the Departments in an overall package. Do you think that it is necessary for us, in setting out a requirement for a package, to specify both the areas on which we would wish to make expenditure and how we would receive it?

1305. **Mr Simpson:** I would want you, if you could, to incorporate some of these issues about procedures. If you just present it as a costed list, you are not sending the full message to the public administration in Northern Ireland. In recent years, for all sorts of reasons, the public administration has been full of statements of good intent, but no one has tied it down to operational delivery by given dates for major issues.

1306. How often have you heard someone say that he hoped that something would be done by March 2006 but that the timetable has slipped, and it is now going to be later? There are examples of that in every organisation, but I would like to persuade you to formalise a statement so that slippage is acknowledged.

1307. As a group of MLAs, you were understandably quick to comment when the Department of Finance and Personnel announced the underspend. Would you like to know where the underspend was and what it was that was late? It did not get approval to spend X in the financial year in order to end up with Y as a surplus deliberately. There was a scheme in there, but did it get everything right? I see that the Minister has now employed consultants to review the way in which we set public expenditure planning. I have no doubt that the subgroup will be very interested in seeing the full, unedited report.

1308. **Dr Birnie:** Can I go back to what you said about the Azores judgement? I hope that I have got this right. You said that the judgement might show us a different route to the same end. Could you elaborate on what that different route might look like in the light of the judgement?

1309. **Mr J Simpson:** I shall try. The most obvious alternative route is to say that if the Azores had had its own tax-setting powers, completely separate from the metropolitan Portuguese powers, there would not have been a question, provided that if the Azores lowered their corporate tax, the Government in Lisbon did not say: "You will be short of a couple of hundred million Euro, we will supplement your budget".

1310. It must be an independent decision. It could be said that Northern Ireland already has a tax of that kind: local rates are a devolved responsibility, and if, as a public sector Administration, the Assembly was to choose to lower the rates, it would have to live with less revenue, and there would be all sorts of knock-on effects.

1311. To follow through on Dr Birnie's question, that is the obvious conclusion to draw from the Portuguese judgement. Have corporation tax as a devolved matter, and the Scots might want it as well. However, it must be asked whether that would produce silliness within the European Union that should be challenged. Challenged is a strong word, but there must be few other areas in the European Union where a population of 1·7 million is situated next to a population of around 4 million, creating a tax frontier.

1312. It is conceivable that the equivalent of a peace package might be to ask the European Union for derogation on the issue for some years. That is already happening for the aggregates levy, and the climate-change levy, as it affects natural gas. That was mentioned in some of the subgroup's earlier papers. That argument could be made, but it would be a hard argument to win. However, if soundings were taken with the commissioner responsible for competition policy, it might be worth trying. An option might be to make a back-door presentation to gauge the likelihood of derogation. If it were regarded as a

package to build on the peace process in Northern Ireland, a period of 10 years might be required. It must be a significant period. It would be waste of time to encourage investors if the low tax was to be available for just one year.

1313. Human ingenuity is such that, knowing the rules, we could apply ourselves to developing alternatives.

1314. **Ms Stanton:** I want to address sectarianism and the economy. In the past, investment should have been based on the areas of greatest objective need. That would have cut out the arguments of who gets what, and of this side gets more than that side. Should that approach not be implemented throughout all the structures of any policy or economic package?

1315. **Mr J Simpson:** Forgive me for asking, but could you develop your question one step further, so that I can understand the implications of your proposal?

1316. **Ms Stanton:** My question relates to sectarianism and the economy. I am from north Belfast, where sectarianism has stood in the way of investment and jobs. The emphasis for any economic package from Government should be based on the greatest objective need.

1317. **Mr J Simpson:** I see where you are going. I will overlap your question with the issue of urban regeneration. I am involved in the Greater Shankill and West Belfast Task Forces. It is no secret that the task forces are having significant difficulty with the government machine in getting an adequate response to implementation for those areas, which would obviously have spillover effects on other parts of inner Belfast. In recent meetings, the task forces argued that the priorities of the areas of social deprivation must be met by an urban development framework — or corporation — that would take account of social and economic needs, and would have some of the authority and leverage of the Laganside Corporation.

1318. Such a framework may require further financial packages, but I acknowledge the need for one.

1319. Members will have heard this morning's announcement of the development of an eight-

acre site in east Belfast. I am sure that that will be a useful development, but the picture in inner Belfast is of patchwork rather than coherent development. Members will find, or perhaps already know, that Belfast City Council is interested in exploring further the concept of a city region, a concept that is now being studied more closely at a European level. Even Gordon Brown has issued a White Paper — or is it a Green Paper — on cities. There is, therefore, some current thinking that would address Ms Stanton's question; and the subgroup may wish to consider embracing that thinking in relation to Belfast and Derry. I apologise to those who have travelled from Armagh, but the scale of the problem is most visible in those two cities.

1320. **Mr Weir:** I was worried for a second that North Down had fallen off the map.

1321. To be fair, I was struck by what you said about corporation tax and about the problems with implementation, particularly with regard to capital projects. The fundamental problem with the mindset in Government with regard to capital projects can be illustrated by what happened when some of us met the Minister and Department of Education officials to discuss the funding crisis in the South Eastern Education and Library Board. That meeting took place shortly after the revelations about the underspend within the Department: I cannot remember the exact figure, but it was about £69 million.

1322. One of the excuses that was offered to us was that £69 million was not a real figure because about £40 million of the money that had not been spent was for capital projects. The board had not got round to spending money, had not implemented things quickly enough and had not been able to progress capital projects at the intended time. The mindset in Government was that there was, quite frankly, nothing wrong with that, as it simply meant that the board could spend the money later — and what applies to the Department of Education applies throughout Departments. As you highlighted, there is a fundamental difficulty with that mindset.

1323. I appreciate that you have identified at least two or three components of a solution: greater co-ordination in decision-making;

prioritisation of projects; and the targeting of specific dates. Is there anything that you have not mentioned that you can recommend to have some impact on changing the mindset of Government on implementation?

1324. **Mr McCarthy:** What about a bridge over Strangford Lough?

1325. **Mr McNarry:** From Killinchy to Newtownards.

1326. **Mr J Simpson:** Should the subgroup be persuaded to go in that direction, I suggest taking a sequence of steps. It is important that those steps be kept short, sharp and to the point. State the issues clearly: say that you want priorities identified, dates set and disciplined implementation. Simply telling Government what you want is enough for now: if they deliver on those three issues, we can then consider what the next level should be.

1327. **Mr McCann:** What has been said about the sequence of events and the time frame was interesting. Both are important in most things that we do.

1328. However, to return to the question about Belfast, I know that the task forces have done some excellent work. The question is how that work progresses from here.

1329. Belfast is a city of two halves: parts of the north and west lie derelict, while the east and the south seem to prosper. That fact is not lost on the people who live in the north and the west of the city. In those areas, or in any deprived area where there has been long-term unemployment, particularly among the young, there are no schemes or projects to enable young people to find work.

1330. Several years ago, when schemes such as Action for Community Employment (ACE) were introduced, the communities that I represent considered them to be an asset that would lift people out of unemployment. Some argued that they should be extended to three or four years and have skills training attached to them, so that people could come out at the other end with recognised skills. Is there a recommendation that the Assembly consider a scheme that could

enable people in areas of severe deprivation to gain skills?

3.30 pm

1331. **Mr J Simpson:** We are dealing with areas that have multi-dimensional problems. Part of my criticism is that we have been tackling those problems as though they were one-dimensional and sat one beside the other.

1332. Members may remember a book written in the late 1970s by Ron Wiener, ‘The Rape and Plunder of the Shankill’. It was not written because the Shankill had any particular community association. It was a commentary on urban redevelopment. We have struggled for years to find a way forward for urban redevelopment. Members may remember the application of housing action areas. They will all be familiar with the Belfast Regeneration Office and the Making Belfast Work initiative. Those ideas are praiseworthy. However, they have not come together to form a coherent approach.

1333. For example, I had two priorities coming out of the Shankill task force. The priorities for the Shankill and west Belfast are different, for good reasons. We have learnt from each other. One of my priorities is when action is going to be taken to underpin the schooling system in the Shankill and to remedy its tragic weaknesses, not just at secondary level, but also at primary level and below. I have said repeatedly that I will judge what the Government has done for the Shankill when there is a major shift in emphasis towards what happens to the children in its schools.

1334. Yesterday, Maria Eagle met school principals from the Shankill. I have spoken to my colleague about the impact of that meeting. The message that I have received is that the Minister is now better informed. Part of the discussion at the meeting was about why extra resources had not been put towards the Shankill in response to the integrated development fund. The explanation that was given by a civil servant was that the money had been sent to the board. The Minister enquired as to when the money would be reallocated. That is a serious question.

1335. My other concern for the Shankill relates to this business of the rape of the Shankill. If no action is taken to improve the built urban infrastructure from Peter’s Hill to Woodvale — the same applies to the Crumlin Road and the Falls Road, although I will not speak for my colleagues there — and a plan is not made for major regeneration of those arterial roads, they will, almost literally, fall down.

1336. For businesses on either side of the Shankill Road, there is no incentive to modernise or regenerate their buildings. Traffic management is appalling. The idea of bus lanes exists, but it is at the bottom of Translink’s priorities.

1337. **The Chairman (Mr Molloy):** I must stop you there, Mr Simpson, as we are pushed for time. John Dallat will ask the next question, or else we could end up with a Belfast-oriented debate.

1338. **Mr Dallat:** Peter Weir has already addressed part of my question.

1339. With the best will in the world, if a financial package were available tomorrow, there is enough bureaucracy in the Civil Service to make sure that it is not progressed. We can all play games, meet Ministers and all that, and get kudos for moving something up a step. By its very nature, a peace package suggests something that is urgent. I do not disagree that the achievable aspects should be realised.

1340. Moving the discussion outside Belfast — that will please you, Chairman —

1341. **The Chairman (Mr Molloy):** I welcome that.

1342. **Mr Dallat:** There are thousands of farmers who have no income. When they try to get involved in diversification schemes, the planners come down on them like a ton of bricks. In fact, dozens of enforcement officers hound farmers about schemes that have been in existence for years. Farmers dare not put a sign out on the road — that is a criminal offence. Yet, if there were renewed confidence in the economy and someone lodged an application for a hotel in Coleraine, for example —

1343. **Mr J Simpson:** As there was recently.

1344. **Mr Dallat:** — and somebody else had lodged an application to build a pigeon loft, the pigeon loft would get priority because of equality laws.

1345. **Ms Ritchie:** About pigeons?

1346. **Mr Dallat:** No, but all planning applications must be taken in turn.

1347. The Chairman is being very good in allowing me to develop my point. How do we develop a co-ordinated approach to delivery?

1348. **Mr J Simpson:** We must first recognise the problem. Until now, one of the tokens of faith in this part of the world has been that we are well served by the public sector. In general, we are. However, the message about the need for a discipline for implementation has not been sent down the line.

1349. Whether it be you, ladies and gentlemen, as elected representatives who will form the Executive, or someone else, a message must be sent that the present quality of implementation is inadequate. That is not to say that there is significant dishonesty or malicious dereliction of duty; it is simply about indicating where we want to focus. That is happening in Dublin.

1350. **The Chairman (Mr Molloy):** John will remain for the next session, which Mike will introduce and in which the subgroup will focus on the key themes. It is important that the wider discussion, and the questions that are asked of John and Mike, deals with those. We are trying to reach conclusions, so it is important that the parties have an input.

1351. **Mr Smyth:** John, do you have a copy of the focus group structure?

1352. **Mr J Simpson:** I do not think so.

1353. **Mr Smyth:** There are four broad headings on which we need to try to make some progress.

1354. **Mr J Simpson:** Are we still being recorded?

1355. **The Chairman (Mr Molloy):** Yes. As a public session, it is being recorded.

1356. **Dr Birnie:** Do we all have that bit of paper?

1357. **The Chairman (Mr Molloy):** I do not think so; I think that only I, as Chairman, have

it. It should be in the members' pack, in some form. Do all members have the focus group structure?

1358. **Mr McCarthy:** Is it in our packs?

1359. **Ms Ritchie:** Which one?

1360. **The Committee Clerk:** Members do not have a copy of the focus group structure, as it was agreed just this morning after discussions between Mike and me. Mike will read out the structure for members' benefit.

1361. **Mr Smyth:** We should try to structure our discussion around the following four main subject areas.

1362. First, the subgroup should try to move towards a definitive statement on the problems facing the Northern Ireland economy, including issues that must be addressed and the case or rationale for an economic package.

1363. Secondly, bearing in mind David McNarry's point in the last session, we should aim to develop an interim position on the optimum, and most realistic, mix of fiscal incentives.

1364. Thirdly, we should move towards some kind of list of specific initiatives or projects that members feel might make a tangible difference to the economy, presumably in a reasonable time frame.

1365. Fourthly, we should consider non-financial and non-fiscal measures, policy reforms and some of the other issues that we have been discussing.

1366. Implementation is a recurring issue, which all the witnesses over the past two weeks have emphasised that the subgroup must address.

1367. **The Chairman (Mr Molloy):** We will give members copies of those questions.

1368. **Mr Smyth:** In my review of the evidence to date, I put it to the subgroup that it must understand why we are examining those issues now. The background is that, for historical and institutional reasons, our economy is unbalanced. That creates a number of spillover effects or distortions that economists believe make it difficult to get back some sense of equilibrium.

1369. One of the distortions that I mentioned this morning was the almost permanent difference here in average non-manual earnings between the public and private sectors. In any normal economy, average non-manual earnings in the private sector would be above those in the public sector, and the gap between the two would be widening. That causes different calculations to be made by economic agents, such as households and businesses. Economists talk about rent-seeking and all sorts of other terms.

1370. However, a number of structures flow from where we are now. Low productivity is at the core. As Victor Hewitt reminded us, low productivity equates to low wages and low living standards. Is that correct? Is that the perception of all parties?

1371. **Ms Ritchie:** Yes, I think so. It goes back to historical issues and the legacy of the conflict, which resulted in emphasis being placed on the public sector — the brakes were placed on private-sector development, and there were many barriers to attracting FDI.

1372. **The Chairman (Mr Molloy):** I take it that the subgroup agrees to Mike's proposal? Is there consensus?

Members indicated assent.

1373. **Mr Smyth:** We now move tentatively towards identifying those issues that go the heart of the productivity conundrum. I remind the subgroup of Victor Hewitt's remark that continuing to do what we have always done will, by and large, produce the results that we have always produced. He also said that, on the basis of present policies, we would be dead, our children would be dead, and our grandchildren would be well on by the time that Northern Ireland's gross domestic product (GDP) per head converged with the UK average, let alone with that of the Republic of Ireland.

1374. Following on from that, the Industrial Task Force argued that some kind of new model or dispensation and radical structural measures are needed.

1375. Is there an agreed timescale for getting results on the ground? Whether devolved Government is restored or direct rule continued,

when do we expect socio-economic regeneration to really start to happen here and when do we expect some convergence with the rest of the UK?

1376. **The Chairman (Mr Molloy):** Is there a target for that?

1377. **Mr Smyth:** We will hear evidence from the Economic Research Institute on the corporation-tax argument, which will inject a break-even analysis. It will show that, at some point in the not-to-distant future, the cost of any tax break here would be offset by the economic benefits. I have heard a range of values, ranging from 20 years to 10 years. The subgroup needs to think about that.

3.45 pm

1378. **Mr J Simpson:** Can I enquire as to when the report from ERINI is expected, Chairman? Will it influence what the subgroup is writing?

1379. **The Chairman (Mr Molloy):** Victor Hewitt provided an update.

1380. **The Committee Clerk:** We are working on the report on an economic package, which must be drafted by today week and must be before the Committee on the Preparation for Government by 4 October. Victor Hewitt's research will not be completed in time for that, although the third report, which will include fiscal incentives and occupational skills, will. He has provided an update on his research, which is included in today's members' pack. I can summarise it for you.

1381. **Mr J Simpson:** No. It is on the agenda.

1382. **Mr Smyth:** I detect some residual reservations among members about the efficacy of corporation tax to stimulate foreign direct investment. There are some reservations over whether even foreign direct investment can close the gap in any meaningful time frame. Can we discuss those two issues?

1383. **Mr Ford:** I think that Mike is referring to my views on the efficacy of that tax. It is not whether a reduction in corporation tax will attract FDI — the evidence from the Republic shows that it will. The question is whether the benefits will substantially attract more FDI or whether they will make an already comfortable

life more comfortable for some indigenous small businesses that do not make any major effort to increase. How might potential fiscal changes be targeted to ensure that FDI is attracted or that expansion is encouraged? We do not want to encourage a continuation of the current situation.

1384. **Ms Ritchie:** As a very puerile individual, I must suggest that it also depends on where FDI is located. If it is located in areas where industry has always been located, that will not address disadvantaged areas, whether they be in the west or the south-east, that have not generally been associated with manufacturing, business or commerce. There is a need to address that, and there must be an incentive to get people there.

1385. **The Chairman (Mr Molloy):** In the South, the expansion of business in general was able to get everybody working. That led to an increased number of migrant workers, and that increased the tax base and helped the economy.

1386. **Mr J Simpson:** Following on from Ms Ritchie's point, if an advantageous fiscal arrangement is gained, one difficulty would be trying to apply it if Northern Ireland were to be broken into sections. The answer to Ms Ritchie's question is that if there is the right infrastructure, the right education and skills and the right supportive arrangements, they must be loaded, distorted or biased in order to target the areas of disadvantage.

1387. **Ms Ritchie:** I did not disagree; in fact, I agree. However, the issue is how that is achieved.

1388. **Mr J Simpson:** If I were writing the report — and I am not, thank goodness — I would place the tax paragraph at the end. I would add all the other suggestions above it, so that the tax would be an obvious derivative.

1389. **Ms Stanton:** Before we take any decisions on that, especially if we are to consider all the winners and losers in this, it would be important to have all the information and evidence.

1390. **Mr Smyth:** Accepting that the productivity gap is at the heart of our economic problem, the question is how we go about closing it. There is consensus in the subgroup that wherever FDI is located, it has a major role to play in closing the

productivity gap. Research has shown, inter alia, that FDI jobs pay somewhere between two and four times average earnings. FDI meets the criteria, it creates employment and, through multiplier effects, it stimulates tradable and non-tradable service jobs elsewhere. It increases the tax take.

1391. **The Chairman (Mr Molloy):** Are there opportunities for the unemployed and the less well off?

1392. **Mr Smyth:** There is evidence to show that it has a spillover on the pool of management competence and skills that we talked about.

1393. **Mr J Simpson:** People who are interested in developing management skills will readily subscribe to the view that at present our organised contribution to management skills is inadequate. Gone are the days when either one of the two universities claimed to have a business or management school. Some people bear the scars for what went wrong. However, it is worth noting that DEL is currently consulting on how to improve management delivery, and that could be on a list of things that it was asked to sharpen up.

1394. On the issue of FDI, we are still playing the game. Any discussion that I have had recently has been around the argument that any new, expanded level of FDI at the levels of higher value added requires that the rest of society also adjusts. The argument that was put to me earlier today was — and I shall take out the phrase with which I was asked to preface this remark. — that if we do not develop clusters of expertise at the highest international level, probably related to the two universities and probably in quite defined areas, we will be pitching in the wind to get FDI but we will not have sufficient focus. R&D and the academic-excellence argument is an important precursor — or whatever the word is that makes a precursor into what happens today.

1395. **The Chairman (Mr Molloy):** Do you have a specific question, Mr McNarry?

1396. **Mr McNarry:** We are getting a good deal of economic analysis; however, there is also the practical side to consider. With all due respect, I

hear what Ms Ritchie says, and she is thinking of her constituency —

1397. **Ms Ritchie:** We have had a dearth of manufacturing —

1398. **The Chairman (Mr Molloy):** Let Mr McNarry continue, please.

1399. **Ms Ritchie:** Sorry.

1400. **Mr McNarry:** I understand that. I could say the same about my constituency. Where there are manufacturing jobs, people are housed in a unit. Once the workforce reaches a certain size, the company needs bigger premises, and it leaves. It does not go further afield; it moves closer to Belfast — and we are pretty close to Belfast. It is difficult to crystal-ball gaze, but we asked ourselves some time ago: what will we tell young folk to study in order to get a job in 10 years' time? We are not identifying the types of jobs that people will do. Ms Stanton talked about deprivation, and that is respected; however, we do not really have a problem with unemployment here.

1401. **Ms Ritchie:** It is not a problem now, but it used to be.

1402. **Mr McNarry:** We have problems with poverty and deprivation, but when we ask people to produce the figures, they tell us that we do really have a problem. Why then do we need all these migrant workers? In his evidence the man from Moy Park Ltd said that there are not enough people in Dungannon and that locals do not want to work. That is why the company has had to bring in these people.

1403. I was talking to a meat packager today in the same area who said that his business could not survive without migrant workers. He was concerned about what happens if all of those workers want to go home. Our children are not being trained to replace those workers, nor do they want to do those jobs.

1404. **The Chairman (Mr Molloy):** It has been said that everyone in Dungannon has been through the Moy Park factory, sometimes twice.

1405. **Mr McNarry:** I will not enter into any type of racist argument — far from it — but I now see white people brushing the streets of

London where I did not see them before. The attitude toward so-called menial jobs is: “We are not going to do that type of thing.” That will be an ongoing problem. It would be helpful if we could, somewhere down the line, identify what type of jobs we are seeking to create. Can we live up to the promise of the financial packages? Can we use them wisely?

1406. We have a habit in Northern Ireland of throwing money away. That has been the case with direct rule, but also with devolved Governments, for which, in many cases, people from my community were responsible. We do not have slush funds; we just have mountains of money that we throw at stupid ideas, all in the hope that that will have a quick effect. That does not work, and it is a terrible waste. People are used to getting handouts for nonsensical projects.

1407. Allow me to digress. There used to be a fellow named Brian Faulkner, who was one of my heroes because he was Minister of Commerce. He built a reputation as the guy who went to America and everywhere else and brought back jobs, created factories, etc. What would that guy do today? Where would he go? Who would he see? What would he look for?

1408. Citibank recently established a presence in Northern Ireland. That firm creates different types of jobs in big money and financial services. Is that what we are seeking? John Simpson asked about the measures that we are seeking to include in a financial package. We must ask for how much longer we are going to rely on selling cheese and milk, or Cookstown sausages, etc. Who are we selling them to? What are we doing about our farmers' future? What type of jobs are we seeking to create?

1409. I would like to be able to say that we have a timescale of 20 years to work these matters out, but we need some answers tomorrow.

1410. **The Chairman (Mr Molloy):** Can I bring the discussion back to a focus on the issues, because we are trying to —

1411. **Mr McNarry:** I am trying to focus on the reality and practicality of this matter.

1412. **The Chairman (Mr Molloy):** Michael is seeking agreement on the specific issues before us. I would like us to focus on that.

1413. **Mr Smyth:** If the Republic of Ireland had not been outperforming its competitors over the past 15 years, would we be having this discussion, and would the time constraints be so pressing? I think not.

1414. Following that line of argument, why, *inter alia*, has the Republic of Ireland outperformed its competitors? There is no getting away from the fact that the Republic has had a huge bottom-line advantage over us in attracting high-value-added producers and multinational businesses.

1415. Aside from FDI and corporation tax, we have looked at fiscal incentives such as enhanced capital allowances or tax credits. The evidence on those measures is fairly mixed; they can have an effect, but it will take a very long time for them to start to make a difference. That takes us back to the issue of a timescale. What is the realistic timescale within which we expect this package to have an impact?

4.00 pm

1416. **Dr Birnie:** I agree with everything that Mike said, but I would like to qualify it. The Republic's performance from around 1990 has been very impressive. Almost certainly, that has been partly due to its rate of corporation tax, and that is why we are looking at that urgently and in the belief that we can do something quickly to bring about a step change in growth.

1417. The qualification is that the Republic has had that low rate of corporation tax since 1958 — I tried to put that question to Sir George Quigley. Unfortunately, although all of us, as politicians, want immediate returns, I recall the old saying that the difference between a politician and a statesman is that the politician thinks about the next election and the statesman — or stateswoman — thinks about the next generation.

1418. We would like — and people need — to see a return within five years. However, the full effect of the package will be felt only over a generation or two. Economic history shows us that things change slowly.

1419. **Ms Ritchie:** The SDLP agrees. Although we all might want results within five years for this generation, we would like to see long-term benefits for the next.

1420. **Mr McNarry:** In political terms, we want the freedom to be able to do this work ourselves. We must keep running. There is no buy-in with the Treasury in setting our own rate of corporation tax. There must be a responsibility to our membership of the United Kingdom. If reducing corporation tax is such a good idea, why is it not happening in England, Scotland and Wales? Why is it not UK policy? Those regions are competing too. Who else are we competing with?

1421. **The Chairman (Mr Molloy):** Esmond made the point that the South had a lower rate of corporation tax for a long time before it became beneficial. Is it possible that we can gain benefits within a shorter period because we are a neighbouring area of economic growth?

1422. **Mr McNarry:** Only if we are properly equipped. Once we make ourselves that competitive, we must be competitive on the production line as well.

1423. **The Chairman (Mr Molloy):** I have talked to American economists who have said that, when they are looking at the island as one entity, they are looking for the part that is of most advantage to them. If the same tax system exists across the island, perhaps there is an advantage and we can catch up more quickly.

1424. **Mr Ford:** If, for example, the International Financial Services Centre in Dublin became overheated, there would be the potential for development in Belfast. However, it would have to be in Belfast; that is not something that could be done in Newry, Downpatrick or even Dungannon.

1425. **Mr McNarry:** It could be done in Newtownards.

1426. **The Chairman (Mr Molloy):** The centre of the world. *[Laughter.]*

1427. **Mr Smyth:** Can I take John Simpson's excellent suggestion that we put the tax matter towards the end of our report?

1428. **Mr J Simpson:** Putting it at the end does not make it a small issue; it shows the sequence.

1429. **Mr Smyth:** That is the best way forward. We can move on to the next issue, which is the consideration of a realistic mix of financial incentives to form the core of the package. Disregarding corporation tax, R&D-tax credits and capital allowances — which can be put into the same basket — the evidence that we have received has placed emphasis on measures to stimulate knowledge transfer from our higher education institutions to the business community. That applies to: research and development; innovation at all levels in business, such as business models, processes, products, marketing, logistics etc; and enterprise. Could members leave it to me to draw something up on that?

1430. **The Chairman (Mr Molloy):** John Simpson also made the point about meeting targets.

1431. **Mr Smyth:** Yes.

1432. **Ms Stanton:** Incentives for people to come out of the poverty trap and benefit trap were also included.

1433. **Mr McNarry:** Rather than saying “measures”, will you say what the actual measures are?

1434. **Mr Smyth:** I shall run over the main ones. The proposals for R&D centred on the use of fiscal measures to stimulate the uptake of existing measures from the Department of Trade and Industry (DTI) and DETI.

1435. With regard to innovation, it was suggested that a unit be set up to encourage all small and medium-sized enterprises in receipt of financial support to benchmark themselves internationally against their particular product or segment of the industry. That becomes an absolute prerequisite for financial assistance.

1436. There were suggestions about zoning in metropolitan areas, but they did not expand beyond that broad idea. I am always conscious that state aid rules apply. With regard to zoning, we could perhaps consider rate relief for specific underdeveloped areas.

1437. **Mr J Simpson:** I heard someone say, “excluding Coleraine.” I am sure that that is offensive. *[Laughter.]*

1438. **Dr Birnie:** Coleraine is overdeveloped.

1439. **Mr J Simpson:** As Mike mentioned zoning, the concept of enterprise zones occurred to me. Those would include differential rates and planning concessions.

1440. Of the suggestions that the subgroup is considering, R&D and innovation is at the top end of the spectrum, in the sense of higher value added. One can play around with R&D and tax credits. One possibility that could be considered is reinforcing the SPUR initiative. I wonder whether there is enough knowledge around the table to put that together. The input of the two universities needs to be enhanced. They do not have a big pool of ideas waiting to slip across to industry — they need to be fed, encouraged and grown. The SPUR initiative is an example of how that might be done, without playing around with the tax system.

1441. **Ms Ritchie:** Could we capitalise on investment in all university research on the island?

1442. With regard to enterprise zones, could we push for an enterprise growth fund or would that be a disincentive? I ask John from an economist’s point of view; there are always advantages and disadvantages.

1443. **Mr J Simpson:** While Mike is thinking of a good answer to that, I shall give you a bad one. What could such a fund do that Invest Northern Ireland could not do if it so wished?

1444. **Mr Smyth:** There is evidence of gaps in provision of development finance for businesses, but the record in trying to plug those gaps is not great. For example, venture capital is problematic here and, as John said, not only in universities. That is because there is no deal flow, and no scale of that deal flow to make it worthwhile for many national venture capitalists to invest. There is a possible argument for an all-island approach.

1445. **The Chairman (Mr Molloy):** One of the overall aims is to reduce the bureaucracy in this area. The Civil Service will give 101 reasons

why something cannot be done, but seldom one reason why something can be done.

1446. **Mr Smyth:** Again, we must have evidence of market failure that the market cannot provide itself. That should be a guiding principle for all the subgroup's proposals.

1447. **Mr McNarry:** It would help to have an innovative Minister. There is no big seller here; nobody is going out to sell the product. We heard what Margaret said. We have now embarked on selling Northern Ireland on an all-Ireland basis. We tried to do that with tourism, and it flopped. The Northern Ireland Tourist Board told us that it had flopped and, if I understood correctly, that it wanted to get out of its Tourism Ireland.

1448. **Mr Dallat:** Well, it would say that.

1449. **Mr McNarry:** But the Tourist Board is the body that markets Northern Ireland.

1450. **Mr Dallat:** It was the biggest flop of all time.

1451. **Mr McNarry:** That is my point.

1452. **Mr Smyth:** Once you take away the headline grabbers of corporation tax and R&D tax credits, there is not an awful lot —

1453. **Mr McNarry:** It is a natural progression that businessmen will want the rate of corporation tax reduced. We have listened to their pitch, which is to compete with the Republic of Ireland, as though that were the only country that Northern Ireland business competes with, or as though it is China on our doorstep. Of course it is not. Once you give businessmen a reduction of corporation tax, they will want more, and we have to be sure that the rewards will be there.

1454. I have spoken to businessmen from across the border, and I find that they are already at the stage where they have banked corporation tax and now want a review of capital gains tax. Why cannot we anticipate that and look at capital gains tax? Reducing capital gains tax would be attractive to a board of directors. Our Southern colleagues are going to have to face it: there will be a push to have a review of capital gains tax.

1455. **Mr J Simpson:** I am interested in the relative choice between corporation tax and

capital gains tax. Clearly there is a case. It would be persuasive, and the Treasury would be mean not to recognise it, if the subgroup had assembled cases for, say, nine steps out of 10, with a reduction in tax as the tenth step.

1456. The last time I heard Garrett Fitzgerald speak — and he is still extremely articulate — he had a lesson for us. He wanted to give priority to developing the Irish education system and put changes to the tax system into second place. We have not really grasped that point. When you think of how the Republic's Institutes of Technology have linked into the economic spectrum, there is a lesson there to be learned. It is happening just across the border.

1457. **The Chairman (Mr Molloy):** Government training centres, which were started some years back, failed to take the next step of providing a skills base. Industry now brings in its own trainers, because further education colleges are not providing —

1458. **Mr J Simpson:** May I add to Mr McNarry's comments on education, values and individuals? He asked what we are educating and training people for. My view is that we should be encouraging people to achieve and develop their talents as far as is possible, without particular regard to whether they are going to be road sweepers, brickies or whatever it might be.

1459. Occasionally, I ask people to tell me what skill has ever become redundant, rather than being the base for someone to enhance their career over time. To date the only answer I have received was when someone asked me what riveters are doing today, compared to what they were doing 30 years ago. All other skills are still relevant.

1460. As regards the skills strategy, I would like to see it accepted explicitly that our tendency to say that we must generate people with the right skills for the needs of today's employers in Northern Ireland is wrong. We should be generating people with the skills for tomorrow to work wherever they choose. Northern Ireland will attract people, and people will also leave, because we are part of a western European environment.

1461. DEL are inclined to ask employers what skills they need. I do not object to that approach, but I do not want that to be the only answer.

1462. **Mr Smyth:** John is saying that we should be looking at those softer measures.

1463. **Mr J Simpson:** They are not softer. They are harder.

1464. **Ms Ritchie:** The evidence submitted, along with Dr Peter Gilleece's research paper, proved beyond doubt that the Republic's success lay in its investment in education and skills.

1465. **Mr McNarry:** We have fallen into the trap of talking down our education system. This Government is tearing it apart, and we are allowing them to do it. We are talking it down as if it is secondary that we are producing good people. We are talking about the problem of the people at the bottom as if they are useless.

4.15 pm

1466. **Mr Smyth:** I shall move on to the third section: "List of specific initiatives/projects where a one-off investment could make a tangible difference to the economy."

1467. We could find examples of those in John's list of projects. The usual suspects are: physical infrastructure projects; initiatives to boost skills formation, and copperfastening vocational education.

1468. It concerns me that a few years ago, though it did not do it very well, Northern Ireland, under Classroom 2000, boasted that it had a lead over the rest of the world, because it was the only place on earth in which children aged four to 18 had broadband Internet access supporting the national curriculum in every school in the Province.

1469. It cost £300 million, but has fallen on its face. That is something that the subgroup really needs to look at. The hardware is not fit to accommodate the learning environment, and the firewalls protecting young people from paedophiles also prevent e-mails and simple communication. The hardware is of a vintage that cannot support some of the new multi-media balanced learning environments. Worst of all, the teachers have no idea how to make it

work. Only a few million out of the £300 million was spent on preparing the gatekeepers who were to run it.

1470. That goes to the heart of the issue of implementation. As I understand it, it is not too late.

1471. **The Chairman (Mr Molloy):** One of the items on John's list of projects is staring us in the face; it is waste management. We need to examine that.

1472. **Mr McNarry:** Is that an inquiry into the Civil Service? *[Laughter.]*

1473. **Mr Smyth:** I am open to suggestions about one-off projects and initiatives.

1474. **Mr J Simpson:** May I put a controversial proposal? As a layman, I ask our professional politicians to come to a consensus view on the biggest single project that might impact on the economy. It is the redevelopment of the Maze site, which is sitting in limbo. If it has support, then it needs to be carried through with conviction. If it does not have support, we should not be wasting resources in ways that are becoming obvious, as people argue for alternatives. You may wish to park that issue, Chairman, until you have a meeting in the pub on Saturday.

1475. **The Chairman (Mr Molloy):** I will leave that one to Mike.

1476. **Mr Smyth:** It is noted, as are the qualifying conditions.

1477. **Mr McNarry:** It is a very interesting point in terms of expectations. I thought that the Maze could give Northern Ireland an international marketing piece. I am very keen on sport; and we would have a stadium that we could internationalise because it would have visitors from other countries.

1478. We have to pay attention to Belfast, because it is the capital. What can we legitimately describe as attractions? What makes Belfast more attractive than, or as attractive as any other place in which to work, go to school or enjoy oneself?

1479. Leisure facilities in Belfast are appalling. Belfast submitted an unsuccessful bid to be the European Capital of Culture. We should not

give up on such initiatives, but we should strive to make something happen in Belfast — or wherever members like, but let us concentrate on Belfast — that internationalises Northern Ireland. Huge numbers of people pay 19 quid to jump on planes to go to other cities in Europe. We need to work towards a situation in which, in those cities, there are people who want to come to Belfast and, after their first visits, they want to come back.

1480. **The Chairman (Mr Molloy):** Can we list the Maze site as one of those issues?

1481. **Ms Ritchie:** Mindful that we are trying to pump-prime our economy, and that Translink and the Department for Regional Development are working with Iarnród Éireann on developing the Belfast to Dublin railway, it is important, from a practical point of view, that the length of time it takes to travel between the two principal cities on the island is decreased. Therefore, we should consider a project to improve both the rolling stock and the rail network.

1482. **The Chairman (Mr Molloy):** That would be similar to the Trans-European Networks (TENs).

1483. **Ms Ritchie:** Yes; it would be equivalent to TENs.

1484. **Mr McCarthy:** The failure of tourism has been mentioned on a number of occasions. Mr Simpson referred to the Giant's Causeway, but what about the Northern Ireland Aquarium — Exploris — in Portaferry?

1485. **Mr J Simpson:** My only answer to that is that Northern Ireland needs iconic attractions; we cannot have too many of them. The tourist industry has signature projects — that is where I picked up the phrase. Northern Ireland could do with some signature projects for the economy. If one of those were to link with tourism, so much the better.

1486. **Mr Ford:** To go back to the Maze site, which is a dangerous place — *[Laughter.]*

1487. That ties in perfectly with John's earlier remarks. We are still engaged in an endless debate as to whether the proposed national stadium should be sited at the Maze. That is a

classic example of our complete failure to make a decision and proceed wholeheartedly, either with the Maze site or with a project in Belfast, etc. If we cannot reach the point where there is enough joined-up government to have a period of consultation, take a decision and get on with a project — as opposed to having a period of consultation, announcing the decision, and continuing to debate its merits for the next five years — we will be in some difficulties.

1488. Discussion of the Maze brings me to a point that I made on which I did not hear any other comments, for or against. I mentioned the cost of segregation and the need to invest in a way that enables people to move forward in society together. I refer specifically to issues such as shared space to ensure that people can take available jobs and employers have a wider market, and to the issue of wasted public and private expenditure.

1489. **Mr McNarry:** Can the roads be shared spaces for orangemen as well?

1490. **Mr Smyth:** Do members have any suggestions on skills needs? We have talked about adult literacy and numeracy. Can we get into the specifics of that? For example, how can those issues be tackled in inner-city Belfast?

1491. **Mr McNarry:** We have talked about training and apprenticeships, but one issue that particularly strikes me is that so many people are self-employed. Small owner-run companies are damaged by insurance costs. That limits, particularly in the construction industry, their ability to bring young people in for training. I do not know how we could get over that problem. Somebody mentioned training colleges, but that means that the young people are taken from a school environment and placed on a building site almost overnight. Those young people will not make it and they have to pay their way to become employed.

1492. The insurance is a killer. So is the training. A self-employed plasterer does not have the time to train an apprentice. Perhaps a package could be introduced that would equip those young people with more than just knowledge but practical experience as well, which would be an incentive for employment. There is a

shortage of skills in the construction industry. Part of the reason is that not enough young people come forward.

1493. **Mr Dallat:** A better way to match skills with work is needed. Many people who have been educated in the grammar system are haemorrhaging out onto building sites. Those are the people who could be the leaders of tomorrow.

1494. Those who do not drift onto building sites — and there is absolutely nothing wrong with doing that — are being poached by the Republic of Ireland and England.

1495. Michael talked about the 250,000 unskilled people who become “the unemployables” because they fall prey to drugs, alcoholism and all the other evils that confront them. We must break the generation gap in learning, because once a parent has some ability to help and encourage their child with homework, that cycle can be broken. Otherwise, European funding will be thrown, as it has been for the past 20 years, at courses that do not deliver.

1496. **Mr McNarry:** I have noticed that what happens in England — and it will happen here — is that the Government award prime building contracts to major construction companies. Skilled workers are brought in from elsewhere and there is, therefore, no incentive on the part of the construction company or of the Government to provide on-site training for young people. There is a blockade. Should there be a stipulation that any major construction firm that takes on a Government building contract must also provide employment and training for a number of young people?

1497. **Mr Dallat:** Yes. The procurement procedure should include a commitment to develop the skills of the people whom they employ.

1498. **The Chairman (Mr Molloy):** The European contract seems to be an impediment to that by having a local identity and local conditions attached to it.

1499. **Ms Stanton:** Seamus, Michael and David have summed up that an integrated approach is needed throughout. Careers guidance people must specifically target individuals’ needs and

help them to progress further in their chosen directions.

1500. **Mr McCann:** Most people have touched on that during the discussion. We must start to think outside the box about how to develop strategies to deal with that. Many local people will tell you in conversation or discussions that the education system has failed young people rather than preparing them for employment and trades. Many schemes have also failed to bring young people through. There must be a focus on ensuring that young people are able to fill the types of posts that have been mentioned.

1501. **Ms Ritchie:** I return to what William Wright said in the first meeting. He talked about the need for skills academies that would cater for the transfer of people who had just done GCSEs but did not want to pursue an academic route, and the need for such academies in various locations. They could provide necessary on-the-job training and ensure that people are not only literate and numerate, but are also equipped for the workplace with the necessary skills.

1502. **Mr McCann:** Twenty or thirty years ago, young people went to Felden House in Belfast to receive training.

1503. **Mr McNarry:** William Wright also said that of the 90 potential apprentices that his company interviews, around 30 could measure a room, and 30 could not until they were shown how to do so. The other 30 were discarded. The problem is that we do not know what happens to them.

1504. **Ms Ritchie:** The needs of those 30 must also be addressed.

4.30 pm

1505. **The Chairman (Mr Molloy):** Therefore, we are saying that issues such as incentives around training, impediments to learning, and insurance need to be dealt with. Are members agreed?

Members indicated assent.

1506. **The Chairman (Mr Molloy):** The next topic for discussion relates to other potential elements in an economic package, which brings in a wider range of issues.

1507. **Mr McNarry:** The UUP's document identifies the requirement for investment in special needs education. We would like support for that, as it has been neglected and is in chaos. It is a highly sensitive area, but it relates to our society. A review of special needs education is ongoing, so the timing is right for investment in that area.

1508. **The Chairman (Mr Molloy):** I think there would be agreement around the table on the issue.

1509. **Mr Dallat:** There is agreement on all aspects of it. In my constituency, Sandalford School in Coleraine has been a model of perfection, but now it is overcrowded and can no longer deal with the junior classes. Adults attending the school have only children's books to read. We could discuss the matter all day.

1510. **Ms Ritchie:** I am conscious of the identification of non-fiscal measures such as changes to planning regulations. The Planning Service should set up an economic business unit to deal specifically with planning applications for businesses. Those applications could be fast-tracked, rather than being held up in the system for two to three years, which currently is the case. The business and manufacturing sectors need an incentive. There also needs to be a fillip from Government to help them along the way.

1511. **The Chairman (Mr Molloy):** Therefore the proposal would be to facilitate the creation of such a unit.

1512. **Mr McCarthy:** The Planning Service also needs to address the issue of rural diversification, because delays have been an impediment to that for a long time.

1513. **The Chairman (Mr Molloy):** The Planning Service does not recognise that many good businesses are created out of the rural sheds for which it is now denying planning permission.

1514. **Mr Smyth:** Everyone seems to agree on the thorny issue of implementation, and I wish to suggest a few dimensions to that. John Simpson said that there are institutional issues relating to implementation in the area of infrastructure. The Business Alliance and the Economic

Development Forum have told the subgroup about their serious reservations regarding skills strategies and the fact that we do not know how to implement them. There are other major issues regarding our efficiency in delivering key services, such as health, and the Appleby Review highlights that. We would be derelict in our duty if we did not make some hard recommendations on those issues.

1515. **Dr Birnie:** I agree with everything that Mr Smyth has said. An additional element came up in Dr Gilleece's paper during a previous Committee meeting, which referred to the Public Accounts Committee. I do not want to decry its work, and I hope that Mr Dallat will forgive me, as that Committee has its proper place and role. However, we must define the types of public expenditure that should be subject to minute scrutiny on a case-by-case basis.

1516. With public bodies, such as Invest Northern Ireland, it is almost a case of setting up a contract and a range of targets with those bodies, and their being measured on those targets. However, civil servants need to be assured that failure on one target will not lead to a public execution.

1517. **Mr Dallat:** I wish to make two constructive comments. There are proposals in Westminster to bring the National Audit Office into centre stage to influence what happens in the Assembly. That is a positive step.

1518. We must also consider an internal auditing system, which would stop the gravy train — if that is what it is — before it leaves the station. Those two proposals would overcome many problems.

1519. I accept that the Public Accounts Committee was used as an instrument to attack the lack of decision making. The Public Accounts Committee got blamed for everything, although perhaps there were times that it did not get it quite right.

1520. **Mr Ford:** Mike's point takes me back to an earlier exchange between John Dallat and myself about the role of the SIB, and, specifically, which body should be given the strategic duties to drive this project forward. At the moment, we have not identified which body should have that

responsibility, although I have suggested that it should be the Executive. Those are real issues.

1521. We heard in this morning's evidence about the excellent plans and wonderful strategies that have been drawn up to tackle the issues. However, those strategies are simply put on a shelf. It is a cliché, but there are real problems, and those strategies and plans must be implemented.

1522. As regards the review of business regulations, if representatives of the Farmers' Union were present, they would talk about gold-plating European regulations. We are not saying that there should be a bonfire of all regulations, but we must decide which regulations are appropriate and necessary.

1523. **The Committee Clerk:** I scanned the parties' submissions for the first report under the heading "Other potential elements". Most of the issues have already been raised, but I will run through them to remind Members. They are: a comprehensive review of business-related regulations; the fast-tracking of economy-related planning applications; public expenditure commitments; the ring-fencing of economic development allocations; the retention of selective financial assistance after 2006; the development of a strategy for the manufacturing sector; review of public procurement procedures to maximise opportunities for indigenous business; the release of under-utilised public land and assets; and the retention of income from the sale of such assets. Those were just a few issues that seemed to fit under that heading.

1524. **The Chairman (Mr Molloy):** Members feel that a package should be used to delay, for a period, the implementation of industrial derating, the rates increase and the introduction of water charges? Perhaps it would not change the situation, but it could delay implementation.

1525. **Ms Ritchie:** I would not be happy with those measures because they would be seen as an additional taxation burden. Chairman, what are you suggesting?

1526. **The Chairman (Mr Molloy):** The package could alleviate those increases in taxation for a time, allowing more time to

develop further measures. The Government say that they need to raise money through water taxation, double rates and so on. I am saying that we could use the package to alleviate that extra burden by delaying its implementation. I am not advocating that we support further taxation.

1527. **Mr Ford:** It would allow us time to find a better way.

1528. **Mr McCarthy:** That is right.

1529. **Mr Dallat:** I want to return to Michael's point about IT in schools and link that with youth enterprise. It would be useful to have help from John Simpson on this. By and large, the school curriculum does not encourage youth enterprise — that only happens if teachers in individual schools happen to have a flair for it. Michael was absolutely right to mention IT. I know of schools in Northern Ireland that are linked with schools in Africa, but when problems arise, the difficulties are here, not in Africa.

1530. Furthermore, I have seen the enormous benefits that IT has given to children who live in what is probably the third poorest country in the world. I have seen the results. We have flipped over that vital point. IT made enormous differences in the Gaeltacht areas in Galway, even though one might not think it feasible to make change in such areas.

1531. **The Chairman (Mr Molloy):** Are there any other matters? There are several issues there. Is there agreement that they should all be included in the package?

1532. **Dr Birnie:** Is there any precedent in the Southern Irish experience — or anywhere else in the western world — of giving senior civil servants incentives to be risk takers rather than defend the status quo?

1533. **Mr Ford:** Perhaps it is for Ministers to do the risk-taking and allow the permanent secretary to put on file that he suggested the customary caution.

1534. **Ms Ritchie:** That goes back to the fact that we have not had stable Government.

1535. **The Chairman (Mr Molloy):** OK. Are there any other issues? Is there any other

business? I remind members who have not made a presentation that they must be submitted by close of play on Monday if they are to be included as part of the report.

1536. **Ms Ritchie:** What time on Monday?

1537. **The Chairman (Mr Molloy):** By 5.00 pm on Monday. The next meeting of the subgroup will be on Thursday 28 September in room 135.

1538. **Ms Ritchie:** Will we consider the draft report in the morning?

1539. **The Committee Clerk:** Yes. We have to have a draft report for next Thursday in order to meet the deadline of 4 October.

1540. **The Chairman (Mr Molloy):** There is no other business. The subgroup will now adjourn.

Adjourned at 4.41pm.

Appendix 3

Sub-Group Workplan

Sub-Group Workplan

	Week 1: 14 Sept. 06	Week 2: 21 Sept. 06	Week 3: 2 Oct. 06
Thursday AM	Meeting 1 (10am) <i>Chair: Mr Wells</i> Evidence Sessions on Economic Package/Peace Dividend Business Alliance (10.15 – 11.15am) ERINI (11.15am – 12.15am)	Meeting 2 (10am) <i>Chair: Mr McClarty</i> Evidence Sessions on Economic Package/Peace Dividend EDF (10.15am–11.15am) Review of evidence by economic advisors (11.15am-12.15pm)	
Thursday PM	Meeting cont. (2pm) <i>Chair: Mrs Long</i> Evidence Sessions on Economic Package/Peace Dividend Industrial Task Force (2.00pm – 2.45pm) InterTradeIreland (2.45pm – 3.30pm) Planning Service (3.30pm – 4.15pm)	Meeting cont. (1.15pm) <i>Chair: Mr Molloy</i> Views of the Political Parties (1.15pm-2.30pm) Evidence from John Simpson (2.30pm – 3.15pm) Focus group format, facilitated by Economist, to agree key themes of report on the Economic Package/Peace Dividend(3.15pm – 4.45pm)	Meeting cont. (2pm) <i>Chair: Mr Maginness</i> <i>Consideration of Draft Report on Economic Package/Peace Dividend – and agree as Final Report subject to any agreed amendments</i>
Notes		Economist to be appointed by w/c 18 Sept.	Deadline for reporting to PfG Committee on Economic Package/Peace Dividend – Wed. 04 Oct.

	Week 3: 05 October 06	Week 4: 12 October 06	Week 5: 19 October 06
Thursday AM	Meeting 4 (10am) <i>Chair: Mrs Long</i> Evidence Sessions on Fiscal Options/ Skills & Education Strategy	Meeting 5 (10am) <i>Chair: Mr Molloy</i> <i>Consideration of Evidence</i>	Meeting 6 (10am) <i>Chair: Mr Maginness</i> <i>Consideration of Draft Report on Fiscal Options/ Skills & Education Strategy</i>
Thursday PM	Meeting cont. (2pm) <i>Chair: Mr McClarty</i> Evidence Sessions on Fiscal Options/ Skills & Education Strategy	Meeting cont. (2pm) <i>Chair: Mr Wells</i> <i>Consideration of Evidence continued</i>	Meeting cont. (2pm) <i>Chair: Mr Maginness</i> <i>Agree Final Report on Fiscal Options/ Skills & Education Strategy</i>
Notes			Deadline for reporting to PfG Committee on Fiscal Options and Skills & Education Strategy – Mon. 23 Oct.

Appendix 4

Section 1: Written Evidence Submitted by Witnesses

Economic Research Institute of Northern Ireland

Written Submission of Evidence to the: Assembly Sub-Group on the Economic Challenges Facing Northern Ireland



on the

The Preparation for Government (PfG) Committee's New Terms of Reference for the Assembly Sub-Group to consider "The Economic Package / Peace Dividend, Fiscal Measures and Skills and Education Strategy"

14 September 2006

During its deliberations the Assembly Sub-Group on the Economic Challenges Facing Northern Ireland has identified a range of factors they believe contribute to the lack of performance in the Northern Ireland economy. These include well rehearsed arguments over peripherality, low productivity, deficiencies in skills, low levels of enterprise and R&D activity and so on. These are important issues that need to be tackled even though there is sometimes confusion between cause and effect. However, having surveyed the evidence given to the Sub-Group and its deliberations it is possible that some confusion has arisen about the significance of these matters in relation to the wider challenge facing the economy.

It is clear that on present performance there is no prospect of the Northern Ireland economy making significant progress in converging with the average in the UK never mind with the Republic of Ireland in the lifetime of anyone now present. We will certainly continue to grow but without much change in our relative position. If that is acceptable then we can probably rely on current policies which have a long history and which are largely focused on the impediments to growth identified by the Sub-Group.

On the other hand if such an outcome is not acceptable, if we are aiming for a much higher level of sustained performance that has hitherto been achieved then marginal adjustments to existing instruments of policy will not suffice. New instruments that are both qualitatively and quantitatively of a different order of magnitude are required. To take an analogy, no conventional aircraft no matter how powerful or well designed can escape the bounds of earth. For that we need a quite different vehicle, a rocket. If we want to get on a higher economic trajectory then we need the economic instrument(s) that are the equivalent of a rocket to do so.

This point is absolutely fundamental and must be grasped. Continuing to do what we have always done will by and large produce the results that we have always achieved. If on the

other hand we aim high then we need to have the means to maximise our chances of achieving such goals.

What then are the realities that have to be faced? First, we cannot in the long-term rely on the public sector as a source of growth of the magnitude that is required. The public sector can provide a form of insurance against the worst effects of a slow down in growth but it is not a suitable vehicle for promoting growth on the scale that a higher trajectory requires. This is a task for the private sector.

The way forward with growth is through exports, including exports to the GB market. Given the size of Northern Ireland this must be obvious. A market of 1.7 million is simply too small to provide a base for growth.

Many of our indigenous companies are, of course, exporters but the true heavy lifters in this category are Foreign Direct Investment (FDI) companies whose markets are truly global. This is true for most small countries and regions. In the Republic, for example, 90 per cent of exports are provided by FDI firms.

Moving to a higher growth trajectory, therefore, means attracting and holding on to more high quality FDI projects. There is simply no escape from this conclusion. It is a challenge that has to be addressed if we are serious about giving Northern Ireland a prosperous future.

Understanding the needs of foreign investors is essential in this process and especially the needs of 'A' list FDI companies. It can be assumed that such projects will take as read that we can provide the basics such as adequate infrastructure and the availability of good quality labour at reasonable prices. Alone these might get us on the long list when companies are considering making location decisions. To get on the short list our offering has to go much further and the financial package that can be made available is crucial.

All of the evidence available suggests that investors favour simplicity and certainty in fiscal support over complexity, uncertainty and bureaucracy. The simplest fiscal instruments are those that address the bottom line of profit directly and paramount amongst those is corporation tax. Low corporation tax rewards success, output and above all profit. All other tax breaks and the entire range of grant regimes focus on encouraging inputs. This is a very important distinction. Implicitly input subsidies align with the concept of the region being a 'cost centre' for business. Keep down costs in this view is paramount. The corporation tax approach, however, views the region as a 'profit centre'. Maximising the bottom line is the objective. It is not difficult to see which sort of regime would be more attractive to the most successful and dynamic companies.

Turning to the wider economic package, in a previous submission to the Sub-Group on 10 August 2006 it was argued that it would be worthwhile to devote additional resources to the problem of underperformance in our schools at the lower end. On reflection this remains one of the most critical issues that we need to address. And it can be addressed. All of the important information that is needed to frame an effective policy response is available (or should be available). A start needs to be made and the sooner the better.

In other evidence the Sub-Group will have heard arguments that Northern Ireland needs to slim down the public sector and the Review of Public Administration is one vehicle that will

bring this about. The Sub-Group has also expressed concerns about the level of economic inactivity in the region and the relatively poor record on the creation of enterprises.

A time-bounded programme that could help to address all of these matters (and others) might be a package of support to be made available to those displaced from the public sector to retrain and refocus their lives, including help for those who wish to take up the challenge and opportunities of becoming entrepreneurs. Such a package would help to mobilise our further and higher education centres in a practical way to assist the development of the economy beyond the contribution they already make. A three year programme targeted on say 3,000 participants might cost £10 million a year or £30 million in total. The Sub-Group may wish to consider this proposal further.

Victor Hewitt

Director

Economic Research Institute of Northern Ireland (ERINI)

Industrial Task Force

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SGQ/DW

13th September, 2006

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Dear Shane

Many thanks for facilitating me in regard to the date of my Economic Sub Group evidence. I look forward to being present tomorrow (Thursday) at 2pm. I am not sure if I shall be accompanied by colleagues or not: I am checking out availabilities at present.

If it would be agreeable to the Sub Group, I shall be happy to kick off briefly with some ideas on the Package and then take questions. I hope to follow up the session with written evidence which should be ready by the due date of 18 September.

Regards

Yours ever

Sir George Quigley

InterTradeIreland

Statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly)

Introduction

InterTradeIreland, the Trade and Business Development Body, wishes to thank the Committee for this second opportunity to address the Sub-Group of MLA's which is continuing to consider the economic challenges facing Northern Ireland. The Preparation for Government Committee in agreeing the Sub-Groups first report has set new terms of reference for the sub-group to:

- Consider the results of the Economic Research Institute of Northern Ireland's research and the commissioned Department of Enterprise Trade and Investment study into the fiscal options to prepare a costed case for consideration by a restored Executive and the Treasury;
- Consider and report on the 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.

Correspondence from the Clerk of the Committee sub-group stated that the sub-group will wish to focus on the following key areas:

- community regeneration
- infrastructure;
- education and skills; and
- fiscal incentives capable of attracting foreign direct investment and encouraging the growth of high value-added indigenous companies.

InterTradeIreland's response will focus primarily on education & skills and infrastructure, and will specifically address them within the context of the potential for all-island collaborative initiatives that deliver mutual value. In this respect we welcome the sub-group's conclusion in its first report that "there are no economic borders in the global market and that, where possible, all practical initiatives should be explored to examine the mutual benefits of enhanced collaboration and market exploitation through clustering and improved all-island

infrastructure links.” InterTradeIreland believes that there exists broad scope for coordination in public service and infrastructure delivery on the island. In regard to how an economic package/peace dividend could contribute to economic regeneration a significant element should be ring-fenced for initiatives (such as the ones outlined below) that will improve the flow of economic resources across the island to mutual benefit.

Before addressing these issues we wish to draw the sub-group’s attention to the ongoing work of the British Irish InterGovernmental Conference which is currently considering the potential for further economic collaboration in areas where it is mutually beneficial. The Conference has identified Infrastructure, Labour Market and Skills Development, Science Technology and Innovation, Trade and Investment promotion, and Enterprise and Business Development as initial areas to be explored. At its last meeting in July the Conference

- Agreed to pooling resources in trade promotion – specifically opening all trade missions to companies across the island and making the facilities of Invest NI and Enterprise Ireland overseas offices available to all companies on the island.
- Agreed an all-island approach to labour market skills forecasting – recognising that a skilled workforce will be a key resource for a globally competitive all-island economy, and agrees to work together to identify skills gaps and propose how these should be addressed.
- Agreed a new all-island approach to international collaboration in science and technology – including taking advantage of EU funds which can be jointly accessed on an all-island basis to significantly enhance the opportunities for companies to collaborate on research and development.
- Agreed an all-island approach to business development through knowledge exchange – including an all-island conference in the autumn to kick start a new joint approach to business development and collaborations through networks and clusters.

The InterTradeIreland view on all-island competitiveness is a pragmatic one that emphasises the optimal utilisation of the island’s resources, to drive success in global markets. Through co-operation in strategically chosen areas of clear mutual advantage, lower costs, higher levels of innovation, higher productivity and wealth creation can be achieved across the island.

The main economic resources at our disposal are people and the institutional and physical infrastructure. It is our ability to invest in and utilise these resources and attract and retain resources from other regions that will condition the ability of the island, North and South, to grow and achieve sustainable and equitable development over the next 20 years. InterTradeIreland believes that by adopting a more collaborative approach to the use attraction, and retention of resources, both jurisdictions can avoid wasteful policy duplication, leverage better investment outcomes and reduce costs. Where the public sector is the provider of goods and services there are likely to be significant opportunities for coordinated action.

Each jurisdiction faces a common set of challenges, unbounded by geography. While each has developed a separate but largely similar response to these challenges, the current imperative is to develop a functional complementarity that enhances the competitiveness of the island, to the benefit of North and South.

I mentioned earlier that the two key economic resources available to us are our people and our infrastructure. Both have been highlighted by the sub-group and both have been addressed from an all-island perspective in reports commissioned and published by InterTradeIreland so it would be appropriate if I addressed these two areas first. Each report is set in the context of intensifying global competition and the need to grasp every opportunity for competitive advantage-on the island of Ireland collaboration is one such advantage.

Key Points:	A significant element of an economic package/peace dividend should be ring-fenced for initiatives that will improve the flow of economic resources across the island to mutual benefit
	Where the public sector is the provider of goods and services there are likely to be significant opportunities for coordinated action.

Education and Skills

The effect of low cost competition from within the EU and from the Far East means that for firms operating in the tradable sector to be successful they will have to rely more and more on the superior skills of their labour force.

Given the productivity gap in Northern Ireland, which we highlighted in our previous presentation, part of the economic package will have to address the skills deficiencies that exist in Northern Ireland companies. Managerial, sales & marketing, and technical absorption capabilities must also be addressed as part of the skills deficiency. The Sector Skills Councils are attempting to address skills problems at a sectoral level. At a company level, one approach that InterTradeIreland hopes to pilot is the extension to Northern Ireland of business led training networks which are currently being delivered in Ireland by Skillnets.

On a wider level the report '*Engineering a Knowledge Island 2020*' highlights the requirement for collaboration to ensure that the people of this island are equipped with the necessary skills to drive competitiveness in the knowledge-based global economy. The report commissioned by InterTradeIreland from the Irish Academy of Engineers and Engineers Ireland, sets a target for the island to be in the Top 5 global economies in terms of income per head by 2020. To this end, it believes achievement of a 4.5% per annum growth rate for the island to 2020 and the creation of a 'knowledge island' should be adopted as feasible targets. The achievement of these targets will require close collaboration in fulfilling the economic and skills potential of the people of the island on issues such as the supply of qualified engineers, IT staff and PhD's and the development of world class centres of research. For Northern Ireland in particular an important channel in improving human capital would be measures which stemmed or reversed the so-called 'brain drain' of non-returning students through an increase in university places locally.

A common issue facing both jurisdictions is the unprecedented scale of in-migration. Current population projections from NISRA suggest inward migration of 4000 people in 2005. However, recent statistics from the workers registration scheme and from national insurance applications suggest that over the last 18 months, there have been between 15,000 and 30,000 migrants into Northern Ireland. In Ireland the number of migrants rose by 86,900 between May 2005 and May 2006. In-migration to the island on such a scale is unprecedented in both jurisdictions and there is certainly scope for policy collaboration as Governments wrestle with the economic and social implications.

Collaboration between the expert skills groups in the two jurisdictions is ongoing and we would encourage the development of an all-island approach to skills forecasting.

Key Points:	Future success in the tradeable sector will rely on the superior skills of the workforce
	Pilot business led training networks such as Skillnets programme in Ireland
	Increase output of qualified engineers, IT Staff and PhD's
	Increase university places
	Policy collaboration on implications of in-migration
	Collaborate in development of world class centres of research

Infrastructure

The first report '*Spatial Strategies on the Island of Ireland*', commissioned by InterTradeIreland from the International Centre for Local and Regional Development, articulates the vision of an all-island economy as one where "all citizens throughout the island will gain from access to better markets, higher quality public services, economic growth and reductions in regional disparities." An economy with the capability to successfully innovate, compete and adapt to new opportunities, providing win-win outcomes for Northern Ireland and Ireland. As the island embarks on a clear and irrevocable growth path with a demographic trajectory that indicates population growth to almost 7 million people by 2021 rising to 8 million by 2031, the report calls for a high level framework for collaboration on spatial and strategic infrastructure planning to:

- Inform future investment programmes;
- Maximise synergies between different aspects of investment programmes;
- Underpin balanced regional competitiveness; and
- Reposition and re-image the island in general as a globally innovative and competitive location.

The main areas identified in the report as having strengths and potential to benefit from better sharing or connectivity between the spatial strategies include;

- Transport infrastructure-roads and rail connections and City of Derry Airport
- Telecommunications-particularly improved connectivity for broadband and mobile telecommunications and all-island electronic customs system
- Energy
- Cross-border planning corridor initiatives-Newry/Dundalk; Derry/Letterkenny; Enniskillen/Sligo; Omagh/Cavan-Monaghan
- Tourism Initiatives
- Waste Management
- Information databases
- Third Level education
- Health and wellbeing.

Looking at some of these issues in detail....

Transport

Broad agreement exists on the required cross-border road infrastructure. One potential problem is that the level of resources committed to transport infrastructure in Northern Ireland is significantly less (measured by proportion of total spend) than that available under the National Development Plan. While this reflects a greater priority on social infrastructure and differences in historical endowments, it will slow the implementation of co-ordinated road provision.

Allocation of Investment, % of total

	Republic	North
Transport	38.1	15.7
Health	7.6	18.2
Education	8.8	26.1
Public admin	12.3	7.1
Productive Sector	7.4	2.6
Agriculture	2.9	2.5
Housing	7.6	12.7
Environment	15.2	15.1

Both spatial plans recognise the importance of the City of Derry to the development of the North-West region including Donegal. Already part funding for the City of Derry Airport is being provided by the Irish Exchequer on the basis of the service provided for the population of Donegal. The decision to upgrade the Belfast – City of Derry road is probably the most important measure that can be taken to enhance the growth prospects of the region. In December 2005, the Secretary of State for NI announced that the A6 from Derry to Dungiven would be dualled at a cost of £250m, with work beginning before 2015. Dualling is also planned for the stretch of road from Castledawson to the M22, leading in due course to a much improved link between Donegal and Belfast.

Further benefits could be realised if the Dublin – City of Derry road was also upgraded. The stretch of road south of the border will be improved as part of the National Development Plan. The Regional Strategic Transport Network Transport Plan envisaged improvements in Northern Ireland, although not dualling. The NRA and Roads Service are currently working to produce a joint paper on the costs and options for more significant improvements to the road.

Health

Already the two governments have recognised that joint provision of certain public services in the border region makes sense. Natural catchment areas in sectors like health care and waste management span the border. Following this logic Altnagelvin hospital in Derry provides services to the people of Donegal. Without dismissing the administrative complexities involved, the potential for an integrated plan for the key health service facilities in the border regions should be examined. For example one of the largest planned investments in Northern

Ireland is a new hospital in the south-west. Consideration should be given to whether services could be provided on a cross border basis. The growth of Health Telematics Applications and the extension of broadband access offer opportunities for the delivery of diagnostic services on a cross-border basis.

All-Island Electricity Market

The governments of Ireland and Northern Ireland are committed to the establishment of the Single Wholesale Electricity Market by July 2007. The single electricity market will, over time, remove market distortions and help minimise the wholesale cost of electricity. It will also create a more attractive location for new electricity generation and investment and thereby improve the security and reliability of electricity supplies throughout the island. This project is driven by purely commercial concerns. Fitz Gerald, 2004 and Fitz Gerald et al., 2005, has shown that an all-island electricity market will benefit both economies. These studies also

showed that the realisation of the benefits of this market (due to begin on 1st July 2007), will require this investment in transmission to double the existing link between the North and the Republic.

The energy needs of this island may also require additional investment in a second East-West electricity interconnector to Britain. This would in all likelihood be built from the Republic to Britain. However, the benefits of such enhanced interconnection would flow to consumers in the North, just as consumers in the Republic are already benefiting from the interconnector to Scotland already in place in the North. Once again the cost of any such enhanced interconnection will be carried by consumers, not tax payers and the obstacles to accomplishing any needed investment will lie more in the planning system.

Key Points:	A high level framework for collaboration in spatial and strategic infrastructure plans
	Prioritise Dublin – Derry road link
	Integrated plan for key health service facilities in border region
	The energy needs of this island may also require additional investment in a second East-West electricity interconnector to Britain

Community Regeneration

Borders represent the interface between national economic and social systems. On each side are distinctive institutional supports for economic development and business activity. The difference in the institutional architecture and accompanying regulation imposes additional transaction costs on firms wishing to expand across the border. As a result, natural markets can become fragmented along territorial lines and the opportunity, to develop economies of scale and strong indigenous industries based on a larger home market, is made more difficult. Reduced economic interaction also decreases the ability to develop agglomeration economies: the input-output linkages, pooled labour skills and knowledge transfer which are the building blocks of an innovation economy. While the overall effect will inhibit the larger economy the impacts are also geographically localized in the vicinity of the border. Firms are likely to shun border regions, as locating there would curtail the wider market or supply area. Instead

economic activity is pulled towards regions that are more central relative to domestic markets. In turn, denser networks of supply and demand relations develop in the core reinforcing the disadvantages of a peripheral border location, creating ever more marginal areas.

As shown in our last presentation regional disparities continue to exist in educational attainment and earnings. These effects are geographically concentrated along the border and are compounded by poor access to infrastructure and public services

Economic activity is currently concentrated in the Belfast Metropolitan Region. In order for sustainable development to occur, within Belfast and across Northern Ireland, spatial planning must provide the basis for the economic regeneration of communities outside of Belfast. The Regional Development Strategy for Northern Ireland recognises this and has prioritised the strengthening the City of Derry as the hub and major business centre for the north-west, including Donegal. In addition, Newry and Enniskillen, two of the three urban centres identified by the strategy as having a major inter-regional development role are located in the border region.

In order for the objectives of sustainable development and community economic regeneration to be achieved the complementary features of both the Regional Development Strategy and The National Spatial Strategy should be drawn out and linked.

Under the two spatial strategies, three distinct zones could potentially benefit from strategic planning co-operation; namely the Dublin/Belfast and Derry/Letterkenny corridors as well as the Dundalk Sligo corridor with links to Armagh, Cavan, Monaghan, Enniskillen and Omagh.

Key Points:	Adopting an all-island approach to policy development can put border counties at the centre rather than the periphery of a new functional all-island economic area and help regenerate border communities.
	The development of the Dublin/Belfast and Derry/Letterkenny corridors as well as the Dundalk Sligo corridor with links to Armagh, Cavan, Monaghan, Enniskillen and Omagh should be prioritised as having significant benefits for borders communities.

Fiscal incentives capable of attracting foreign direct investment and encouraging the growth of high value-added indigenous companies

A key objective of InterTradeIreland is to develop all-island sectoral networks that through the exchange of knowledge will enhance the growth potential of individual businesses and the sector on the island and lead the island to being viewed as a centre or cluster of excellence in a particular industrial activity. A low corporation tax regime has helped Ireland establish significant global presence in areas such as Software, Pharmaceuticals and International Financial Services. Through all-island sectoral networks InterTradeIreland aims to diffuse and embed the benefits of this investment. In its deliberations on the use of fiscal incentives InterTradeIreland would encourage any research to look at whether different tax regimes hamper the development of all-island clusters. An interesting case study would be the financial services sector.

Financial Services is a sector which we believe offers the potential for significant mutual gains through collaboration. According to our report 'A Review of the All-island Financial Services Sector' the industry contributes approximately £5.5 bn to the economy North and South and employs over 93,000 people (80% in the South). In Ireland the sector has benefited

from the establishment of the International Financial Services Centre (IFSC) by the Irish Government in 1987 in Dublin Docklands. The IFSC is now a leading location for a range of internationally traded financial services. It is host to half of the world's top 50 banks and to half of the top 20 insurance companies. Recent data suggests that the Irish Exchequer collected more than €700m in corporation tax from IFSC companies in 2002 and that 20,000 people work in the IFSC. More than 430 international companies are approved to trade in the IFSC, while a further 700 managed entities are approved to carry on business under the IFSC programme. The model is one that with strong political leadership and goodwill could be replicated in or extended to Belfast with obvious benefits not only to the North but also to the sustainable development and growth of the IFSC in Dublin. The idea should at least be explored within the current context of preparing for government.

Key Points Summary

Key Points:

- Explore the possibility of developing the IFSC in Belfast
- A significant element of an economic package/peace dividend should be ring-fenced for initiatives that will improve the flow of economic resources across the island to mutual benefit
- Where the public sector is the provider of goods and services there are likely to be significant opportunities for coordinated action
- Future success in the tradeable sector will rely on the superior skills of the workforce
- Pilot business led training networks such as Skillnets programme in Ireland
- Increase output of qualified engineers, IT Staff and PhD's
- Increase university places
- Policy collaboration on implications of in-migration
- Collaborate in world class centres of research
- A high level framework for collaboration in spatial and strategic infrastructure plans
- Prioritise Dublin – Derry road link
- Integrated plan for key health service facilities in border region
- Adopting an all-island approach to policy development can put border counties at the centre rather than the periphery of a new functional all-island economic area and help regenerate border communities
- The development of the Dublin/Belfast and Derry/Letterkenny corridors as well as the Dundalk Sligo corridor with links to Armagh, Cavan, Monaghan, Enniskillen and Omagh should be prioritised.
- Explore the possibility of developing the IFSC in Belfast

Planning Service of Northern Ireland




The Economy and Planning

Presentation to the Assembly Sub-Group
14 September 2006


David Ferguson
Chief Executive

Pat McBride
Director of Operations

Tom Clarke
Acting Director
Strategic Planning



The Economy and Planning



Introduction

- Context
- The concerns
- Our views/experience




The Economy and Planning




Context

- Demand and commitment
 - Applications
 - Area Plans and Planning Policies
- Complexity and interest/involvement
- Modernising the process
 - Legislation
 - Administrative/process changes
- Speed v Transparency



The Economy and Planning



The Concerns

- General
 - Slow and unresponsive
 - A deterrent to investment
- Specific
 - Need for review and streamlining
 - Adequate resourcing
 - Responses by consultees




The Economy and Planning




Our view/experience

- Applications by category
 - 80% minor/intermediate
 - 20% major
- Performance on major applications
 - ISNI programme (Water Service PPPs; Enniskillen Hospital etc)
 - Others, for example:
 - Belfast City Centre
 - Coca Cola
 - Bridgewater
 - N/S gas pipeline



The Economy and Planning



Our view/experience

- Area Plan coverage (up to date draft or fully adopted)
 - <80% of the total land area
 - >70% of the population
 - 21 out of 26 District Councils



The Economy and Planning



Our view/experience

- The response to concerns
 - Completing the suite of up to date Area Plans
 - Sharpening our focus on the effective management and processing of economically and socially significant applications
 - Putting more emphasis on pre-application discussion and advice
 - Working with key consultees (Roads Service, Water Service, EHS) on SLAs

Economic Development Forum

EDF Skills Sub-Group – Report to the Assembly Economic Sub-Group

The Economic Vision for Northern Ireland is of a “high value added, highly skilled, innovative and enterprising economy which enables us to compete globally leading to greater wealth creation and better employment opportunities for all.” Four EDF sub-groups were established in line with the four drivers of the Economic Vision.

The primary purpose of each sub-group was to identify and prioritise the key issues to be addressed in relation to their sub-group area and to put in place the effective arrangements to monitor progress towards implementation of the Vision as it relates to their sub-group. It was agreed that the sub-groups would focus on the implementation of the EDF Vision and have an important challenge function.

Background to Skills Sub-Group

One of the four drivers for change is to “ensure that our people have the right skills for future employment opportunities.” The starting point for the EDF Skills Sub-Group were the objectives set out within the Vision document for developing the skills agenda – specifically:-

- An increase in the skills, literacy and qualifications of the Northern Ireland workforce at all levels
- Improvement in the labour market information provided by employers and specific skills demand and standards in key sectors of the economy
- Managers have the capability, competence and capacity to lead innovation, creativity and change and the leadership skills required to play a key role in the development of the local economy
- Greatly improved careers information, advice and guidance at all levels and ages

The sub-group comprises EDF representatives from the business community, trade unions, voluntary and community sector and education area. It also has additional representatives from the business community and civil service Departments. The secretariat is provided by DEL. Between May 2005 and September 2006 the Sub-Group met on 9 occasions, reporting to EDF in plenary on 6 occasions.

Focus of Skills Sub-Group

The work of the skills-sub group (SSG) can be clustered around 6 main areas:-

Alignment of EDF Vision with DEL Skills Strategy.

The work undertaken by the SSG has focused on consideration of the extent to which the DEL skills strategy would support the implementation of the economic vision. Members welcomed the close correlation between the EDF Vision and the DEL skills strategy. The objectives of the skills strategy are to better ensure that individuals have the skills they need to enhance their employability, and that employers have access to the necessary skills to develop their business successfully within the economic objectives of increasing FDI, encouraging SME growth and a strong entrepreneurial base, and increasing literacy and numeracy.

- Implementation of Skills Strategy. Members reviewed the DEL implementation Plan for the Strategy and broadly endorsed the Programme of activity. Issues raised included the urgent need for the identification of skills priorities for Northern Ireland (now being developed through the Expert Skills Group) and the importance of performance measurement of outcomes (additional project currently underway).
- Significant concerns were raised about the proposed funding allocation for the skills strategy including the amount of new money available and the capacity of the Department of influence further and higher education institutions in the delivery of the EDF vision. The conclusion of the sub-group was that evidence suggested that the funding of the strategy should be considered as part of the CSR. Areas for development include training for employees in employment.

Careers, Information and Advice

Concerns have been raised about the quality, independence and objectivity of careers information and advice for young people in schools and FE. SSG Members asked for a series of presentations from DEL on careers and advice within the Department. Members participated in a cross Departmental (DE - DEL) conference on the future development of careers advice and information in Northern Ireland. Recommendations arising from the conference point to a significant shift in how this will be delivered in the future. It is the view of the sub-group that a concerted attempt is needed to improve the delivery of the service to young people.

Management and Leadership Initiatives

The quality of Northern Ireland managers is critical to the future development of the economy. Members received two initial presentations on this area that highlighted that the current delivery of management courses was fragmented and diverse. In addition there are a wide range of stakeholders involved in management development in Northern Ireland. As a consequence the SSG hosted a meeting with the key organisations from the private, public, voluntary and supply sectors to discuss the development of a Management and Leadership Strategy for Northern Ireland. The Chairman of the Management and Leadership network was invited to present details on the work of the MLN and draft proposals on the way forward to the SSG and a wide range of representative groups. The Group was encouraged by the positive response of the representative groups.

Developing Linkages between FE Sector and Schools

A critical issue in the development of the options open to young people in Northern Ireland is the range of subjects offered within the schools and the linkages that exist with FE colleges. The SSG received a number of presentations on the joint DEL / DE Vocational Enhancement Programme that aims to develop the collaboration. Members recognised the progress that had been raised in this area although some schools still represented a hurdle to progress. A second concern was the negative perception of the value of vocational education within elements of the education system.

Alignment of EDF Vision with DE

The Department of Education was asked by the SSG to present on the role of the education system in the development of the economy. Members welcomed the economic intent of the Department and the changes taking place in the areas of school performance, curriculum development and improving the levels of literacy and numeracy. It is the intention of the proposed changes to create a learning and qualifications ladder that will promote progress and employability through a mix of broad education, professional and technical provision and employability skills. The SSG members felt that there was a need to win the hearts and minds of parents, teachers and employers about the importance of widening the range of opportunities to young people. The focus of the Department is now on implementation. This should be monitored on an on-going basis.

Relationship between Invest NI and DEL

Members were interested in the possible role of the FE sector in economic development. Through discussion with DEL and INI it emerged that while there were clear examples of the two organisations working together this tended to be ad hoc and informal. In addition there was a considerable lack of knowledge within INI as to the possible potential of the FE sector in economic development, in particular in using the FE infrastructure to sell Northern Ireland to external investors. Both organisations have agreed to formalise linkages and enhance the awareness of what is available.

Moving the Skills Agenda Forward

A number of observations arise from the work to date:-

- Both DEL and DE have raised questions about the level of funds available to deliver the strategic intent of the Departments. In the case of the DEL skills strategy there appears to be a funding allocation based on a historical allocation of resources rather than a planned approach based on the implementation of the strategy.
- Cross Departmental working is critical – especially between DEL and DE. On all of the issues discussed about – careers, management development, FE and schools – progress cannot be made without meaningful collaboration. Linkages are also important between DETI and DE and DEL. They need to be actively pursued to overcome Departmental silos.
- Having a responsive education infrastructure is important. Higher Education receives an allocation of £230m. DEL has limited direct control over this expenditure as it is operated under charter within the University system. Universities need to be directly

involved in ensuring the higher education system meets the needs of the local economy. Further Education receives £163m. Again a possible mismatch exists between what is required and what is delivered (only 30% of FE provision can be currently allocated to 1999 priority skills areas)

- A new approach to professional and technical skills is required. One of the barriers to progress is an often-outdated perception of the value and quality of FE provision. The FE sector is critical to the widening of choices available to young people and ensuring that skills are available to employers. Experience elsewhere also shows that they can also have a direct link with the attraction of foreign direct investment and in the enhancement of the local skills base of employers. Current linkages between INI and DEL are weak.
- Focus on the needs of Northern Ireland. Expenditure can be directed by UK initiatives. Members expressed concern over the large number of bodies active in the area of skills development – including 13 sector training councils, 25 licensed sector skills councils, that together with the Sector Skills Development Agency form the “Skills for Business Network” – the same number of sector skills councils for England and Wales.
- There is a need to develop a strategic view as to the future skills needs of Northern Ireland. This is currently under consideration by the Expert Skills Group, complemented by the information generated by FE / workplace linkages.

Economic Development Forum

Innovation Sub-Group – Position Report, September 2006

Members of the Innovation Sub-group agreed that it was important from the outset to understand the difference between R&D and innovation. Innovation was about turning ideas and knowledge into tangible outcomes – products, services, processes which created value and which were commercially exploitable. Innovation was not just about leading edge technology or breakthrough products but also about design and rejuvenating mature products and services and applying existing technology into new areas and markets.

While considering R&D issues the sub-group has primarily focused on innovation. Members of the Sub-Group have identified 9 priority issues:

- Tradeable Services
- Nanotechnology
- HE/FE Collaboration Fund
 - Centres of Excellence
 - Regional Science-Industry Council
- Clustering
- Innovation Skills
- Innovation Metrics
- Foresight

1. Tradeable Services

The Sub-Group recognises the increasing importance of the Tradeable Services to the NI Economy and the need to encourage innovation in this sector.

It was agreed that current innovation activity in the sector should be established. Research has been commissioned by DETI. This research will address the nature of tradeable services, current levels in the UK and Europe, barriers to development and the range of support for tradeable services. An initial report is expected in November 2006.

The Business Services sector contains the majority of what are known as ‘tradeable services’ i.e. those high value-added sectors identified as having the highest potential to trade in services internationally, as outlined in the pilot exporting NI services study (ENIS) December 2005. Tradeable services includes; computer & related activities; research & development; market

research; business management & consultancy; architectural & engineering; technical testing & analysis; advertising and; creative entertainment.

However it is recognised that the NI economy is under-developed relative to the UK and UK regions in terms of the business services sector. In 2003 NI's business services accounted for just 14.7% of NI's total GVA as compared to 24.9% for the UK as a whole. Indeed NI lags considerably behind all of the UK regions within this sector.

Given the small open nature of the NI economy further economic development is predicated upon increasing exports. This applies as much to the service sector as manufacturing. If exports are to form an increasing part of the NI economy one would expect export growth to outpace economic growth. For NI's tradeable services sector to expand via export growth it is important to establish what will drive this export growth. Innovation and R&D performance are key determinants of export activity within the manufacturing sector.

While this is easily understood, measuring the impact of innovation within the service sector is more complex, as the key dynamic for innovation in services centres on interactivity with other firms as opposed to the internal capabilities of a plant or firm – as in manufacturing. Emerging evidence suggests that service sector firms innovate in a different manner to those involved in manufacturing. Service innovation is much less dependent upon R&D than in the manufacturing sectors and is more strongly associated with co-operation interactivity and the strength of the firms' skills base. Given the importance of this area, it is necessary for DETI to better understand how service firms innovate, to identify the main drivers of innovation and the barriers to innovation within the services sector.

2. Nanotechnology and Key Technology Areas

The Sub-group has established the need to develop critical mass in key technology areas such as Agri-food; Aerospace; ICT, Life Sciences; Nanotechnology. Of these Nanotechnology was identified as having the greatest economic potential with commercial applications across a wide range of industry sectors. University representatives have argued that the most cost effective way of building capability would be through the funding of more PhD students which would expand the capability and capacity of the region ultimately feeding through to businesses active in these key areas. Following concerns raised by members, work since June has focused on outlining QUB and UU's joint vision and approach in relation to the economy, the initiatives they want to pursue, targeted outcomes and budget priorities. Representatives from the universities presented a paper in progress at the Sub-Group's meeting which highlighted the contribution of the universities to economic prosperity and the importance of funding PhDs in Northern Ireland to increase knowledge and expertise in local companies. Future work and discussions will focus on the universities' visions for the future and how the Sub-Group can support these.

3. HE/FE Collaboration Fund

The Sub-Group regards technology transfer as a key opportunity to encourage local companies to increase their innovation activity and is supportive of the need for a HE/FE Collaboration

Fund. DEL is currently finalising the details of the fund (approximately £3million over 3 years) with ANIC, QUB and UU.

The main objective of this fund is to increase the technology transfer capability of both universities and colleges to respond to the needs of business (including companies of all sizes but especially SMEs). The focus of the fund should be on wealth creation through knowledge transfer and exploitation.

The responses to DEL's consultation on the proposed fund ended on 28 April and comments received were provided for the Sub-group meeting on 23 May. The Sub-Group would like to see spend being directed towards providing business facing resource in FE colleges which would also act as a conduit for knowledge transfer from both Universities as appropriate. Both HE and FE sectors have agreed on a joint proposal approach and work is continuing to ensure that such a proposal will provide value for money. It is intended that a call for proposals will be made in the Summer with projects being approved before the end of 2006 and funded activities starting April 2007.

4. Centres of Excellence

The Sub-Group has been reviewing the benefit from investment made so far in R&D infrastructure - Centres of Excellence largely funded by Peace 2 and Invest NI. As well as seeking to measure the outcomes from these Centres, EDF wishes to see targets developed for commercial exploitation.

Representatives from Invest NI gave an update on this project at the Sub-Group's recent meeting, highlighting the success of many of the centres. The presentation raised questions about the sustainability of successful centres and pointed to the potential benefit of north-south linkages. Members asked that further information be provided on centres throughout Ireland, both within and beyond the remits of the project, that are world class, and the potential to develop other Centres to become world class, which might become beacons for future foreign direct investment.

5. Regional Science Industry Council

The Sub-Group has recognised the need for an over arching group to support and develop the region's science & technology R&D base. Following discussions DETI is establishing the Northern Ireland Science Industry Panel (NISIP), an advisory panel to encourage the business community to take a leadership role in the development of the region's science and R&D base. The panel, which will include representatives from businesses, the universities the Invest NI Board, and the Innovation Sub-Group, has now been identified. The first meeting of the panel will be held in late September / early October and members will initially focus on establishing a work programme and priority issues to be addressed for the future.

6. Clustering

In considering the behaviour and approach of successful innovative regions on a global basis the sub-group has identified the benefit to be gained from clustering (especially for SME

companies) and collaborative innovation, technology transfer and R&D activity. Following discussions that developing critical mass through clusters would be essential to facilitate innovation in certain industry sectors, the Sub-Group asked Invest NI and the Centre for Competitiveness to map existing clusters and identify gaps where the creation of a cluster would facilitate increased levels of innovation. Invest NI are continuing this work and will consider the potential for FE colleges as facilitators of future clusters and networks. Sub-group members have suggested that the Collaboration fund activities could possibly include promoting cluster technology transfer/innovation activity with colleges/universities.

7. Innovation Skills

The Innovation Sub-Group have noted the need to embed innovation skills in the Learning for Life and Work areas in the new school curriculum and have identified that the FE sector has a key role to play in this and in supporting innovation and technology transfers in SMEs. The EDF Skills Sub-Group have been asked to take forward the Innovation Sub-Group's views.

8. Innovation Metrics

The Sub-Group believes it is essential that local innovation activity especially in the private sector is better tracked in order to better identify the outcomes of policy initiatives. The sub-group sees merit in a more regular annual survey compared to the existing EU triennial Innovation Survey (CIS). The Centre for Competitiveness and DETI are leading work on this. It has been agreed that there will be an NI survey of innovation conducted in 2006, with the main CIS survey running in 2007. The potential for an annual NI survey on innovation to be held in alternate years to the main CIS will be considered in light of the 2006 survey result. Results from the NI survey are expected in Spring 2007.

9. Foresight

The Sub-Group considers that Foresight needs to be more active and better managed in the identified priority technologies for NI (Agri-food; Aerospace; ICT, Life Sciences; Nanotechnology). In particular the Agrifood sector was identified as having insufficient Foresight activity. An Agri-food Food Foresight Leadership Group has been set up and reported to the members in September 2006 on the challenges facing the industry up to 2020. The group has established a foresight plan and members agreed that this was a suitable base on which to build recommendations for the future of the Agri-Food sector. The newly set up Regional Science Industry Council will have responsibility to track foresight activity going forward.

John Simpson

NIA sub-committee Sub-group on the economic challenges facing Northern Ireland

Statement submitted by John Simpson

(21 September 2006)

Introduction

The remit of the sub-committee is to identify measures to enhance the performance of the Northern Ireland economy. This is more than an ambition to reduce unemployment. The ambition might be described as to consider how to grow the economy so that it generates higher living standards for the people in Northern Ireland and does this because people are offered the opportunities to work in occupations with higher value added per person and also because more economically inactive people are offered opportunities to become active employees, or employers.

In this setting, the parameters for official policy, inter alia, range from adapting to sectoral structural changes, coping with demographic changes as well as encouraging higher levels of commercial and industrial investment, creating a more competitive environment, incentivising productivity improvements and ensuring that more people have the training, skills and education to make bigger personal contributions to their own well-being and the overall achievements in the economy.

Terms of reference

The PfG Committee has set new terms of reference for the sub-group to:

1. Consider the results of the Economic Research Institute of NI's research and the commissioned Department of Enterprise Trade and Investment study into the fiscal options to prepare a costed case for consideration by a restored Executive and the Treasury;
2. Consider and report on the 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

3. Undertake further work on how an economic package/peace dividend could contribute to economic regeneration. (emphasis added)

Outline response

Some changes will take place through market forces. However, the acceleration of change and improvement needs to be, and should be, enhanced by different forms of official intervention.

The sub-group might build a response using some key questions to set the scene:

- a. Are the diagnosis and prescription agreed?
- b. Do we have the appropriate policies and priorities?
- c. Do we have the optimum implementation arrangements?
- d. Are the institutions, and personnel in post, fit for purpose?

There are some positive responses to these questions but, unfortunately, there are many possible negatives.

On (a): the key issues include:

1. the need to demonstrate stability in lifestyles and political institutions
2. an acknowledgement that many aspects of economic, environmental and social policy all need to be tackled: there is no one single panacea.

On (b): the main issues include:

1. a need to identify the key policies
2. a need to make 'vision' statements into operational mechanisms
3. acknowledging the wide range of issues, narrowing the tasks into priority sequences

On (c): implementation arrangements

1. selection of priority measures/investments
2. order of implementation
3. timetables, including completion dates

On (d): institutions and personnel

1. many inadequacies, structural and in personnel

Each of these should build the impact on the economy of different forms of official action, including:

1. the scope and impact of fiscal measures
2. the scope and impact for infrastructure improvements

3. impact of skills and training
4. impact on business decision making, incl.R&D, innovation and expansion
5. impact on social cohesion

Each of these topics/policy areas has relevance to the building of an effective economic package, or peace dividend, linked to economic regeneration.

Applying this framework to the terms of reference

Although the terms of reference are set out in three paragraphs, they overlap. Fiscal options and the strategy for skills and education are inherently part of any economic package. All of the suggestions below might be considered as falling within that package although some are less demanding on a financial peace dividend than others.

a. Fiscal options.

The evidence to the earlier committee from DETI and DFP on the costs and benefits of a lower rate of corporation tax was heavily constrained. A reader could detect a ‘Treasury caution’. The evidence from ERINI reflects a more independent viewpoint. The forthcoming study from ERINI on the potential impact of corporate tax changes will become a significant contribution that should be carefully assessed. There is, as ever, the danger that a study of the possible impact might be devalued if it were set in circumstances that were rejected by the Treasury or the Westminster Government. Recommendations on fiscal options must also include an assessment of the implications of the recent ECJ rulings on UK corporate tax rules. [Tax avoidance case and case dismissing the arguments for the Azores]

b. Integrated skills and education strategy.

Quantifying and setting targets for education, skills training and performance of universities and further education colleges. There are many visionary ambitions, many statements of intent BUT there is too little quantification of objectives and outcomes, too little setting of more ambitious timetables, and too little operational influence. In particular, but not only, the programmes of the FE Colleges and possibly the Universities need to be put in an accountable framework.

An additional dimension to be taken into account is that these strategies are, in part, to relate to the prospective employment needs of today’s and tomorrow’s employers BUT, in addition, must offer opportunities for educational development for all young people, including those who may, later, leave to work elsewhere.

c. An economic package and/or peace dividend.

This is not necessarily a package with a ‘price tag’ to allow higher spending. For example, any fiscal variations could be in the form of lower levels of taxation whilst an expanded skills strategy might come with an annual budget commitment.

Alternatively, some of the contribution, as a peace dividend, might be in the form of a write-down of the capital owed by Northern Ireland to the National Loans Fund (The Treasury) and/or a mechanism to supplement the Barnett formula for an agreed amount for a set number of years.

Another element of the package and/or peace dividend might be sought by specified derogations from EU policies in State Aids, expanding on the current short-term variations for Climate Change Levy (as applied to natural gas and aggregates).

A better route to an answer might be to consider the optimum and priority measures that would impact on the economy and by making this identification, compile a framework that should be facilitated.

d. **Other components of an enhanced economic package, or the improved application of current policies.**

- (i) methods of making the RRI package more relevant and effective, including reshaping the role of the SIB to give it tighter terms of reference and greater accountability. Clarity of the timing and scale of capital budgeting and adequate reporting within the NI budget setting.
- (ii) linked to an improved functional role for SIB, a series of priority set projects with publicity as ‘signature projects’.

e.g

Single energy market fully-functioning by January 2009

New college buildings for BIFHE opened by September 2009

Dual carriageway Belfast to Dundalk by 2010

Dual carriageway Belfast to Derry City completed by 2012

West link expanded to three lanes from M1 to M2, M3 by 2012

Giants Causeway enlarged interpretative and educational centre to accommodate one million visitors pa by 2008 and 30,000 pupils on school visits

- (iii) an improved operational framework for urban regeneration programme and institutions. Review of BMAP, and Belfast equivalent of ILEX
- (iv) setting a physical planning baseline that facilitates economic and social change, particularly with a new operational setting for the city-regions
- (v) enhanced spending on incentives to innovation, expanded R&D, knowledge transfers and endowment of research specialisms in Universities.

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Appendix 4

Section 2: Additional Follow-Up Information submitted by Witnesses

Economic Research Institute of Northern Ireland

The Case for a Differential Rate of Corporation Tax for Northern Ireland: Statement of Expectations

At the beginning of August 2006 the Economic Research Institute of Northern Ireland (ERINI) was commissioned by the Industrial Task Force to undertake a study of the case for allowing Northern Ireland to have a rate of corporation tax equivalent to that available in the Republic of Ireland (RoI), as a means of promoting a higher and sustained rate of growth in the region. The study is being conducted by a team of academic researchers drawn from both the United Kingdom (UK) and the Republic of Ireland. The study is not expected to produce its first results until later in October 2006.

At the instruction of the Secretary of State for Northern Ireland the Preparation for Government (PfG) Committee in the Northern Ireland Assembly has set up a sub-group to look at impediments to growth in the local economy, the role of fiscal incentives in promoting a faster rate of growth and the possible composition of a new financial package for Northern Ireland as part of the arrangements for restoring devolution. The sub-group is required to report on the issue of fiscal incentives, including the role of a differential corporation tax rate in Northern Ireland by the first week in October.

The sub-group will be provided with a copy of the completed report as a matter of course but that will not be available within their present timetable for reporting. In these exceptional circumstances the present document has been prepared to assist the sub-group in advance of the full report.

The Terms of Reference for the study require an examination of three main issues:

- (i) The relationship between corporation tax and Foreign Direct Investment (FDI), including how FDI location decisions are influenced by low tax rates for different types of business, and the subsequent impact of the FDI attracted on the performance of the economy. This aspect of the study is to draw particularly on the Irish experience with low corporation tax rates.
- (ii) The potential size of the international market in FDI of all types both now and in the future and the share of this market that might be attracted to Northern Ireland on foot of a lower corporate tax rate, given the proximity of the Irish economy.
- (iii) An estimate of the overall impact on the Northern Ireland economy of attracting a larger share of FDI and the stimulation of indigenous companies as a result of a lower

corporate tax regime. This analysis also encompasses the overall exchequer cost of a change in corporation tax policy for the region and the implications for the annual subvention to Northern Ireland from the UK Treasury.

The study is not concerned with the practical and policy issues involved in setting up and operating a differential corporation tax regime for Northern Ireland. These matters are being considered in a separate exercise being undertaken by ERINI.

The remainder of this paper sets out the expectations of results in each of these dimensions of the study taking account of the work currently underway and informed by the results available from the professional literature on these issues.

Corporation Tax and FDI

The increased mobility of capital over the past twenty years and the spread of globalisation in economic activity have attracted a high degree of interest amongst economists. There now exists a large, growing and increasingly sophisticated body of studies of the relationship between corporate tax rates and other factors and the location decisions of FDI projects¹. The theoretical linkage between corporation tax and foreign investment is that, other things being equal, a higher rate of corporation tax reduces the post tax rate of return on an investment (or equivalently requires a higher pre tax return from an investment to maintain an expected post tax outcome) making the taxing area a less attractive location for investment. Further in the case of small and open economies that are highly dependent upon trade, attempts to tax the returns earned by foreign investors results in the shifting of the tax burden onto local residents in the form of lower wages and real incomes². Attracting foreign companies is also desirable because they are normally more efficient and export oriented than domestic firms and because they often generate positive spillovers for the domestic economy. Thus small countries (and where it is feasible regions) have every incentive to compete aggressively on tax rates with other areas.

Assessing the empirical validity of these hypotheses is complicated by both methodological issues and the availability of data. When companies undertake investment outside their home country they address two distinct issues. First, where should the investment take place and second, how large an investment should be made. The first of these is a location decision while the second is an issue of the scale of investment. Each of these decisions is affected by a different measure of taxation. Discrete decisions (where to locate) are influenced by the average effective tax rate whereas continuous or marginal decisions (how much to invest) depend on the marginal effective tax rate. In the case of infra marginal investments of a substantial size in an existing location, these are more akin to a new location decision so that the average effective tax rate dominates. Effective tax rates are calculated by examining the impact of taxes on future earnings from a project. Since corporate tax systems are progressive the difference between the marginal and the average rate can be substantial at particular rates of return and both will normally be different again from the statutory or headline rate of tax. The present study is mainly concerned with how effective a lower corporation tax would be in inducing

¹ Some recent surveys of the literature can be found in 'The impact of corporate taxation on the location of capital: A review', Devereaux, M.P. and Griffith, R., *Swedish Economic Policy Review* 9, 2002. 'Sensible Tax Policies in Open Economies', Hines Jr, J.R., *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol XXXIII (2003).

² This classic result was first formulated in 'Optimal taxation and public production, I: Production Efficiency (II Tax Rules)', Diamond, P.A. and Mirrlees, J.A., *American Economic Review*, 61, pp261-278.

a greater inflow of profitable FDI to Northern Ireland so studies using the average effective tax rate are particularly important. Effective tax rates depend on the value of tax allowances to companies and when these have been exhausted the headline rate again becomes important.

Practically all FDI studies use data on the investment activities of United States' firms partly because the US is the main source of FDI flows, but also because the US collects by far the greatest volume and quality of data on FDI. Data on FDI can include financial flows as well as real investment depending on how the investment is financed. In addition funding for FDI can be used to finance mergers and acquisitions which do not result in any net increase in the capital stock in the receiving country. Some care is therefore needed in interpreting FDI data particularly when it is in an aggregated form rather than representing the activities of individual firms. The latter is usually derived from tax returns of US companies and is invariably confidential but available to US government-approved researchers.

The statistical techniques used to analyse the connections between corporate taxes and FDI embrace both time series and cross section methods. Time series models examine how FDI responds to variations in after tax rates of return on a year by year basis. These studies report a positive correlation between these variables with elasticities around unity (that is, a one percent improvement in the after tax rate of return is associated with a one percent increase in FDI flows). The implied corporate tax elasticity of investment is therefore about -0.6 (a one percent decrease in tax induced approximately a 0.6 percent increase in FDI). Cross section studies exploit the fact that there are wide variations in corporate tax rates between countries to identify the influence of tax on FDI. A common problem with these studies is the omission of variables that are important but which are themselves correlated with corporate tax rates so producing biased estimates of the tax / FDI linkage. Studies which take account of these fixed effects such as the possible interactions between the tax systems in the donor and host countries also produce a negative tax elasticity. A recent comprehensive survey of empirical work on tax / FDI elasticities produces a mean value for tax elasticity across 25 studies of -3.3, ie a one percentage point fall in the host country corporate tax rate raises FDI in that country by 3.3 percent³.

To a large extent multinational companies have the ability to adjust the reporting location for their taxable profits. If FDI can help to configure the movement of profits then corporate taxes are an integral part of the location strategies of such companies. There is an obvious connection with the tax policy of the donor country in such calculations. For example, a US company investing abroad can finance the investment with equity in which case its profits are taxable in the host country but free from tax in the US until they are repatriated. On the other hand financing the investment through a loan from the parent company gives rise to tax deductible interest payments in the US and taxable interest receipts in the host country. Thus there is an incentive to finance investments in high tax countries through debt and in low tax countries through equity. The empirical evidence is compatible with this hypothesis. These financial aspects of FDI and the interaction with the tax system are important in that they can greatly influence the amount of tax paid in a low tax host country independent of the actual activity carried out there, but to satisfy taxing authorities in the donor country some evidence of real activity in the host country is required.

³ See 'Taxation and foreign direct investment: a synthesis of empirical research', de Mooij, R.A. and Ederveen, S., *International Tax and Public Finance*, 10, 2003.

In summary, the empirical literature points to a qualitatively important inverse relationship between corporate tax rates and the attraction of FDI, though there is uncertainty over quantitative values. Factors other than tax are, of course, important in the FDI equation and the existence of a pool of well qualified labour, reasonable infrastructure, business friendly and robust political structures and membership of wider economic unions, to name but a few, have a role to play. However, in circumstances where these locational factors are similar the existence of a lower rate of corporate tax is a powerful attraction to mobile international capital.

The experience of the Republic of Ireland is of particular relevance in assessing the possible impact of a similar corporate tax regime on Northern Ireland. This is because many of the locational factors of importance to FDI are similar between the two economies and they occupy the same geographical area. Thus both areas have a relatively young workforce and broadly similar education standards as well as common judicial and corporate structures. The major differences between the two are first, that Northern Ireland has had a reputation for political instability and civil unrest for at least thirty years which placed it at a major disadvantage relative to all competitors for FDI regardless of any other factors. Second, while Northern Ireland has relied upon selective financial assistance (grants) as the major instrument to attract FDI the Republic of Ireland has relied primarily on low corporation tax as its instrument of choice. Over the past ten years the issue of political violence and its disincentive effect on FDI has been declining in Northern Ireland, though it has by no means completely vanished. This means that the relative importance of the tax issue (given the broadly similar locational factors) has come into sharper focus.

The table below attempts to summarise the differences between the Republic of Ireland and Northern Ireland across the various factors that have been cited in the literature as contributing to the attraction of FDI

Attraction Factor	Republic of Ireland	Northern Ireland
Demographics	Relatively young population	Relatively young population
Education	Good general education and particularly at post secondary level in technical subjects	Good generally but with an underperforming tail. Post secondary is partly distributed to GB and is less technical
Labour Costs	Becoming uncompetitive	Competitive
Skills	Comprehensive training system	Extensive training system
Transport	Mostly adequate but being rapidly upgraded	Generally good but commands less priority in investment than RoI
Telecoms	Adequate but improving	Very good
Energy	Weaknesses in electricity but otherwise adequate	Relatively high cost
Financial Package	Simple low corporate tax regime with some grants and other tax breaks	Relatively complex SFA (grant) regime with some UK tax breaks
Political Stability / Corporate Governance	Good but some erosion of confidence lately. Well positioned in the EU. A sovereign state	Poor political history but improving. UK framework of law and corporate governance. A region
Language / Culture	English	English

This is not a comprehensive comparison but it is suggestive that in most factors the two areas are well matched except of course in matters of stability and the fiscal package. In some areas, such as technical training, the RoI is in the lead but it is difficult to believe that this

could account for a great discrepancy in performance. What then has been the relative performance of the two areas in terms of FDI attraction?

Ireland is the most FDI-intensive country in Europe. In 2004 the FDI stock per head was over \$57,000 accounting for almost 50% of employment in manufacturing and 22% in services. The FDI intensity was over 6 times greater than in the EU 15⁴. A low tax regime was a critical factor in getting to this position, though the reforms to post secondary education after a critical OECD report in 1965 later facilitated a shift towards more technically advanced FDI. It is worth noting that over time what started as relatively unsophisticated manufacturing FDI has been transformed into progressively more sophisticated investment often of a complementary nature such as software development. In other words FDI companies have retained a presence in Ireland even after a rising cost base has meant that the original investment has been transferred elsewhere. It is revealing that starting from a near zero base in the 1980s Ireland has been able to attract a quite disproportionate share of FDI in services in Europe on the back of a progressive reduction in the level of taxation of service activities (ironically insisted upon by the EU). In 2002/03 it attracted 17% of call centres, 50% of shared services and 8% of headquarters in the EU15 on the basis of a 1% population share. This would simply not have been possible without a generous tax regime⁵.

By contrast the FDI performance in Northern Ireland has been of a quite different (smaller) order of magnitude. In 2005 there were about 725 non UK-owned firms in Northern Ireland of whom 37% were Republic of Ireland-owned businesses and almost 23% US-owned. Many of these companies (almost 30%) were involved in wholesaling and retailing and hence were unlikely to be export oriented. In 2004-05, Invest NI, the local economic development agency secured 17 new FDI projects amounting to an investment of £58 million. Cumulatively over the three years from 2002-03 some £525 million of investment has been attracted from new FDI projects and repeat business from existing investors. By way of contrast, manufacturing investment in the RoI by US companies alone has averaged over \$1billion per annum over the same period.

The Market for FDI

Global FDI flows rise and fall in sympathy with economic conditions, the business environment and world events. World FDI inflows peaked at \$1.4trn in 2000 and then fell to about \$650bn over the next three years. The latest projections are for a recovery from the present level of \$1.2trn back to \$1.4trn by 2010⁶. Predictions that the market for FDI would remain moribund are therefore unfounded. Moreover, and again contrary to expectations, the greatest improvement in FDI flows is likely to be in the developed rather than the developing world. The US / EU15 axis remains the mainspring of world FDI flows and while China and to a much lesser extent India have been recipients of substantial FDI flows over the past decade this momentum is not expected to be sustained over the period to 2010. All projections are of course subject to assumptions about the stability of existing systems and the degree of

4 See 'FDI and Irish Economic Development Over Four Stages of European Integration', Barry, F. University College Dublin, 2006.

5 Some Irish economists argue that other more fundamental factors such as population and education were at least as important as tax in all of this. For example, see 'Catching up with the Leaders: The Irish Hare', Honohan, P. and Walsh, B., *Brookings Papers on Economic Activity*, 2002. None have advocated scrapping the existing tax regime for FDI.

6 'World Investment Prospects to 2010', *Economist Intelligence Unit and The Columbia Programme on International Investment*, 2006.

openness of countries to FDI activity. There is some evidence of hostility towards certain FDI forms such as Mergers and Acquisitions but these are of little relevance in the context of Northern Ireland.

Country projections are also of great interest, especially in the case of Ireland. On average over the 2006-2010 period FDI inflows to the Republic of Ireland are expected to be in the order of \$20bn per year. This would make Ireland the 15th most important recipient of FDI in the world and broadly on a par with Russia. The UK is expected to average \$89.4bn per annum of FDI inflows over the same period making it the second most important FDI recipient in the world.

Estimating a share for Northern Ireland in these projections depend on the assumptions that are made about its overall FDI stance, including the fiscal regime employed. Using ratios of Gross Value Added (GVA) as a guide to what might be achieved in equilibrium (ie, over a run of years) the following results appear.

1. Northern Ireland as part of the UK Regime

The GVA ratio for Northern Ireland and the UK is approximately 2.3%. Thus one scenario is that in equilibrium Northern Ireland captures this proportion of the UK FDI inflow. This would be about \$2bn of FDI per year. (NB This is well in advance of actual FDI attracted in recent years and thus probably flatters the effectiveness of the fiscal regime.)

2. Northern Ireland as part of the RoI Regime

The NI / RoI GVA ratio is approximately 23%. Thus a further scenario is that in equilibrium Northern Ireland captures this proportion of RoI FDI inflows. This would amount to about \$4.5bn of FDI per year.

Thus a ratio of about 2:1 in FDI performance emerges depending on the FDI regime that Northern Ireland follows. These are of course very crude calculations but they are nevertheless suggestive and possibly conservative at least as far as the ratios are concerned⁷. For example, using other ratios such as the population of working age (which is one of the locational factors of great interest to foreign investors) produces much higher FDI flow ratios in equilibrium. As a working hypothesis and assuming that the other major FDI attractive locational factors are broadly similar between Northern Ireland and the RoI, changing from a UK corporate fiscal regime to that used by the RoI could multiply expected FDI flows to Northern Ireland over a period of time by a factor of between 1.5 and 4.0. A more sophisticated analysis in the study is expected to give greater precision to this range.

Impact on the Northern Ireland Economy and Exchequer Costs

Estimating the full effect on the Northern Ireland economy of an increase in FDI requires the use of a well specified model of the local economy able to handle supply side as well as

⁷ The absolute values in these calculations are probably too high because the FDI flow figures have not been adjusted for the proportions of portfolio movements they contain as opposed to real FDI investment.

demand side changes. That is a task for the full study. In the interim and to give some idea of what might be expected other more indirect and less sophisticated methods can be used.

A 2000 European Central Bank simulation of the effects of harmonising corporate taxes among EU states estimated that if Irish corporate tax rates had been raised from 10 to 35% during the 1990s the loss of FDI would have been equivalent to 1.33% of output per year⁸. Assuming the same relationship would hold proportionately for a change from the current 12.5% Irish rate to 30% the loss of FDI would amount to about 1% of GDP. If this is carried over to the Northern Ireland economy it would imply that cutting corporation tax to the Irish level might add approximately 1% of local GDP per annum. Translated to Gross Value Added terms this is equivalent to an additional 1.2%. This is possibly a conservative figure given the potential for Northern Ireland to shift people from lower value added jobs to higher value FDI jobs without initial strain in the labour market. GVA in Northern Ireland in 2005 is estimated at £23bn with a current trend growth of about 3.0% in real terms. Thus by 2007, which is the earliest a change in tax regime might be accomplished, GVA (in 2004 prices) would be approximately £25bn in current trends. A 1.2% boost would, therefore, equate to about £300m extra GVA (in 2004 prices) per year. Overall this would raise the employment baseline by up to 25,000 additional jobs⁹.

The exchequer cost of moving to a new corporate tax regime depends on how the transition is arranged and the distribution of these costs also depends on the arrangements adopted. The obvious tax loss is through the windfall gains existing companies would receive from a fall in corporation tax. This is not easy to assess since the tax system is not proportionate, smaller companies already face a lower tax rate than larger ones. Hence the gains are not shared proportionately and it is not sensible to simply reduce the estimated tax take in proportion to the fall in the headline rate. The current corporation tax take in Northern Ireland is said to be about £600 million per year¹⁰. Assuming the actual distribution of taxpayers follows the size distribution of companies which is approximately Pareto in shape (75:25 small [less than 10 employees] to large) the existing tax burden would be:

19% CT Companies	–	£150 million
30% CT Companies	–	£450 million
Total	–	£600 million

Windfall gains have to be calculated not with reductions from the headline rate but the effective tax rate since this is the rate companies actually pay. Using effective average tax rates for the UK and Ireland as at 2005¹¹ (but referenced to the 19% headline rate for small companies) reducing corporate tax rates to RoI values would incur a tax loss of about £300 million per annum from the baseline.

8 'The disappearing tax base: is foreign direct investment eroding corporate income taxes?' Gropp, R. and Kostial, K., *European Central Bank Working Paper 31*, 2000.

9 Over the period 1992 to 2002 the elasticity of employment to changes in GVA in Northern Ireland was 0.3, that is, a 1% increase in GVA was associated with a 0.3% increase in employment. So on the basis of a baseline of 700,000 employee jobs a 1.2% increase in base GVA would equate to about 25,000 additional jobs. Note also that this assumes no productivity improvement. In practice FDI jobs have higher productivity than existing jobs so there would be some narrowing of the productivity gap with GB.

10 Allowing for population and GVA ratios this is broadly compatible with the corporation tax take quoted for Scotland. See 'Government Expenditure and Revenue in Scotland', Scottish Executive.

11 Taken from the tables available from the Institute of Fiscal Studies.

It is of course inevitable that there will be an initial tax loss through lower rates. This can be kept down through phasing since new FDI is unlikely to get up and running to the point of paying tax for a few years. However, the aim of this exercise is to trade tax rates against expansion of the tax base, and this does not mean solely the corporation tax base. Additional FDI combined with additional activity from established companies in response to the tax cut will expand employment and spending both of which generate additional tax. Thus the entire tax take has to be looked at in the round going from pre corporation tax cuts to the situation after a period has elapsed to allow a response from the wider economy. On the personal tax side an expansion of 25,000 jobs would generate additional income of at least £600 million per year and with a comprehensive tax take (income tax, VAT, duties etc) around 36% this would account for £216 million additional tax¹². To this would be added any new corporation tax revenue from the various forms of FDI activity described earlier in this paper.

The up front costs of changing tax policies are normally considerable but the intention is to stimulate activity that will enable the lost tax to be more than recovered. This is precisely the position in relation to cutting corporation tax in Northern Ireland. It should also be noted that future tax yields that are higher than tax foregone now is a boost to the entire UK economy not just to Northern Ireland, even if that is where the action is focused. Moreover, other things being equal, a higher Northern Ireland tax yield implies a smaller level of annual subvention from the national exchequer.

Conclusions

This paper aims to give the sub committee on the economy some material to consider in advance of the completion of a wider study on the implications of reducing corporation tax in Northern Ireland to compete with the Republic of Ireland. It is not a substitute for the study which will be made available to the sub group in due course. The paper has laid out some of the principal economic issues surrounding the connections between corporation tax, foreign direct investment and economic development in small open economies. The calculations presented are necessarily simplistic though generally conservative and serve only as a guide to quantifying these effects. The main study will shed further light on these matters.

Victor Hewitt

Director

Economic Research Institute of Northern Ireland (ERINI)

¹² The current tax burden in the aggregate is probably slightly ahead of this figure.

Industrial Task Force

Further Written Evidence by Sir George Quigley on Behalf of the Industrial Task Force

15 September 2006

Global FDI

1. The world prospects for strong FDI flows are very good. The thrust of the most recent evidence from the Economist Intelligence Unit and the Columbia Program on International Investment is attached as Annex A.

The Republic of Ireland's FDI prospects

2. The report referred to in para. 1 expects average annual FDI inflows to the Republic 2006 – 2010 to be 4750 US dollars per head and to represent 7.88% of GDP, making the Republic No. 3 after Singapore and Hong Kong. It means that the Republic's share of global FDI inflows would be 1.58% (the 15th largest share). It should be noted that (unlike the position in many countries) FDI inflows to the Republic consist largely of greenfield investment rather than cross-border Mergers and Acquisition activities
3. If Northern Ireland were equally successful in attracting FDI, the average annual total would be some 8 billion US dollars, or over £4 billion, which exceeds the total inflow over the last 10 years.
4. FDI inflows to the Republic 2006 – 2010 are expected to account for between 21.9% and 33.6% of gross fixed investment, well in excess of the percentage for most countries in Western Europe.
5. The Republic's FDI stock in 2005 was already 211 billion US dollars, ranking it 12th in the world. Such a stock is equivalent to 105% of the Republic's GDP. The next highest percentages for Western Europe are the Netherlands (at 87%) and Belgium (at 76%). The Republic's stock level translates into 52,000 US dollars per head, which is expected to rise to 72,500 US dollars in 2010.
6. The existing and projected situations arising from the Republic's success in attracting FDI illustrate starkly how the gap between the two parts of the island is going to widen unless Northern Ireland urgently equips itself with the means to emulate the Republic's performance.

Headline and effective tax rates

7. In evidence on page 247 of Volume 2 it is stated that ‘although the headline rates (ie for the UK and ROI) are 30% and 12½%, the effective rates are 21.7% and 13.7%’. These are the effective marginal tax rates calculated by the CD Howe Institute. It needs to be clearly understood that it is the effective average tax rate – a very different animal – which is universally recognised (by for example the recently appointed Head of the new taxation policy institute at Oxford) as playing a significant role in choice of location. The key research states quite unequivocally: ‘There is strong evidence that the effective average – but not the effective marginal – tax rate is significant’.
8. The definitive figures for the statutory (ie headline), Effective Marginal and Effective Average Tax rates are provided by the Centre for European Economic Research (ZEW) and are set out beneath:

Tax rates in percent, 2005

	Statutory profit tax rate	EMTR	EATR
Austria	25.0	18.9	23.1
Belgium	34.0	20.4	29.7
Cyprus	10.0	8.8	9.7
Czech Republic	26.0	15.6	22.9
Denmark	28.0	19.1	25.2
Estonia	24.0	16.8	21.8
Finland	26.0	21.7	24.6
France	34.9	34.7	34.8
Germany	39.4	30.0	36.0
Greece	32.0	19.0	28.0
Hungary	17.7	18.6	17.9
Ireland	12.5	14.4	14.7
Italy	37.3	22.7	32.0
Latvia	15.0	12.7	14.4
Lithuania	15.0	6.9	12.8
Luxembourg	30.4	18.3	26.7
Malta	35.0	28.8	32.8
Poland	19.0	11.9	17.0
Portugal	27.5	18.4	24.7
Slovakia	19.0	10.7	16.7
Slovenia	25.0	13.2	21.6
Spain	39.9	29.2	36.1
Sweden	28.0	19.1	24.8
Netherlands	31.5	22.2	28.5
United Kingdom	30.0	26.7	28.9

9. It will be seen that the relevant rates so far as location decisions are concerned (ie the effective average rates) are 28.9% for the U.K. and 14.7% for the Republic.
10. As its name implies, the Effective Marginal Rate is the tax rate on a marginal investment which just breaks even, whereas the Effective Average Rate shows the effective tax burden on profitable investments. Of course, once a company has exhausted its allowances, it is the headline rate which determines the tax burden. This becomes the effective tax rate for the highly profitable companies.

Reducing the headline rate versus enhancing tax credits/allowances

11. It has been argued that assembling a range of tax credits/allowances which reduces the effective tax rate can be just as effective as lowering the headline rate in attracting FDI. This point came up for discussion at a recent meeting of the Chief Executives Forum at Queen's. A very experienced RoI businessman who was present wrote to me in the following terms afterwards:

'I thought that I should let you have a brief comment to support your arguments in favour of a 12.5% corporate tax rate rather than maintain a higher rate with targeted capital allowances and research credits. The low rate of tax is automatically far more attractive to high profit margin companies, and constitutes a self selection process for such FDI companies. These are typically ones which are at the most profitable phase of the product life cycle, and who have written off or incurred elsewhere R and D expenditures at an earlier phase of product development eg pharmaceutical, and high tech ICT firms. The profit margins of such companies can be very high. So a low tax rate without conditions is most attractive.'

A high corporate tax with generous offsets or capital grants approach may be appealing for low margin industries such as those in many traditional sectors, but these are not the kind of firms that we should be trying to attract'.

12. This neatly encapsulates the issue but there is also the critically important point that complexity in tax arrangements is widely acknowledged to be negative. The Chairman of the Republic's prime policy body, Forfas, who was a Panellist at the Chief Executive's Forum, underlined the need for simplicity and Professor John Bradley has already made the same point in his evidence to the Sub-Group: 'The [ROI's] tax-based incentive had the great virtue of being very simple, easy to understand and transparent'. In sum, a cocktail of measures can never be the equivalent of a straightforward reduction in the headline rate of corporation tax as a means of securing the step change in the quantity and quality of inward investment which has to play a key part in delivering the vitally important export-driven strategy.

An Economic Package

13. It will be clear from the evidence already given by the Industrial Task Force that we regard a reduction in the standard rate of corporation tax to a figure no higher than 12½% as an indispensable element in any economic package. We believe that, unless this step is taken, the means to deliver on an export-driven growth model will simply not exist and, as a consequence, we will lack the ability to get on to a trajectory which leads to a buoyant, well-balanced economy.

14. When giving evidence on 3 August, the Industrial Task Force sketched out an approach to the construction of the other elements of an economic package. Broadly, the aim would be to create an environment which fulfils the assumptions and expectations of inward investors that their host location matches international standards. Developing Northern Ireland's human capital is therefore critically important. The over arching theme for the major element of the package might be 'Tax and Talent', which would characterise the Northern Ireland 'brand' and become the key marketing message.

The Human Capital Agenda

15. The Agenda has already defined itself:
- (i) Eliminating the long tail of under-achievement which starts with under-achievement at primary level and too often persists through secondary level, with disastrous consequences for the affected individuals' life chances.
 - (ii) Diversifying opportunity for all at secondary level so that those who wish to pursue vocational accreditation are as well placed to do so as those who have opted for the traditional A-level programmes.
 - (iii) Reinforcing (ii) by greatly strengthening the role of the Further Education sector. There is a parallel in the role of the community colleges in the United States. U.S. Companies setting up operations in a new location in the U.S. have paid tribute to the indispensable part played in their successful establishment by the tailored training programmes put on by the colleges. It is generally acknowledged that sub-graduate and post-graduate qualifications will gain in importance at the expense of graduate qualifications in the knowledge economy. The contribution of Further Education in the context of sub-degree work is clear.
 - (iv) Shaping Higher Education so that its output at both graduate and postgraduate level matches the changing profile of the economy – at the expense, if necessary, of publicly funded provision of less relevant activity. It will not be possible to shape Higher Education in this way if schools fail to deliver an output with the relevant subject mix to match University entrance requirements.
 - (v) Tackling far more decisively adult literacy and numeracy deficiencies. It is a disgrace that, after a dozen years' schooling, some aspiring joiners, for example, cannot begin their training until they have been taught the barest elements of literacy and numeracy relevant to that training.
 - (vi) Equipping the economically inactive who are capable of doing so, to rejoin the workforce. The kind of role being discharged by the Job Assist Centres needs to be significantly reinforced and the examples of best practice at the subsequent training stages need to be rolled out so that resources are not wasted on unproductive activity. Where personal attitudes or a variety of impediments (eg poor public transport arrangements) prevent people looking beyond their local community in pursuit of job opportunities, the difficulties should be addressed. An open flexible labour market is a sine qua non for economic growth and the enlargement of opportunity for all. If the benefits trap is still

a significant factor in getting people settled back into work, it should be frankly acknowledged and tackled. The progressive raising of income levels which would result from achieving a higher value added economy would assist with this problem.

Some communities have particularly heavy concentrations of the economically inactive and the long-term unemployed. Reconnecting people with the world of work is the best way of drawing the margins into the mainstream, raising the self-esteem of communities, and giving the hard edge to community regeneration which ensures its sustainability.

16. It will be immediately apparent that there is nothing startlingly novel in any of this. What is needed is not new schemes but the political direction, the planning capability, the management effectiveness and the professional delivery which makes things happen. In other words, success will be down to how we score on execution. In the final analysis, for example:
 - Eliminating unnecessary underachievement or basic skill deficiencies depends on the interaction between teacher/instructor and pupil/student, within a relationship which takes fully on board the family or community dimension.
 - Meeting skills deficiencies is a matter of identifying where in geographical and occupational terms they exist and making the appropriate providers accountable for delivering the necessary action.
17. The specifics could only be worked out from within a government setting but that need not prevent the parties at this stage from indicating that a human resource initiative embracing all the above elements will be central to their programme for Government. Rather than plucking a figure from the air by way of estimate of what additional resources might be required, it would be better to seek an assurance from Government that the necessary resources will be provided as an addition to the Northern Ireland Block, independent of any adjustments which may be made to the Block as a result of the Comprehensive Spending Review.
18. As earnest of their intent, the parties could commit now to setting up a unit within the Executive which would be responsible for:
 - co-ordinating the delivery of the comprehensive human resource agenda.
 - ensuring that stretching targets were set, that accountability for their being met was established, that progress was audited and that the causes of failure were identified and corrected promptly.
 - producing a comprehensive annual report to the Assembly on all the above.
19. A key role for the unit would be to be actively involved in ensuring that the necessary interfaces with the economic policy process within the Executive were established so that the human resource agenda was responsive to the economic development imperatives.
20. The staff resources for such a Unit should be available through redeployment. If it merely became another piece of bureaucracy, it would have failed in its purpose. That purpose would be to keep the spotlight on the totality of the Agenda and, under strong Ministerial direction, to make things happen (as they have not happened hitherto). If we aspire to be host to world-class companies, nothing less than a human resource programme which benchmarks best practice and international standards is good enough.

21. It is implicit in the preceding that it would frustrate the achievement of such an Agenda if responsibility for Education (at all levels) and Employment were spread over different Departments. The holistic vision would be lost.

The Business Innovation Agenda

22. Whilst the existing industrial base is unable on its own to deliver the new economic model – hence the centrality of the corporation tax issue – it must be encouraged to deliver its full potential. That means achieving a step change in export performance. It is a truism that this calls for companies able to identify markets (niche or otherwise) in which they can be competitive – which means being able to sell their goods or services at an acceptable margin. It is also a truism that the only sustainable competitive advantage is innovation.
23. Meaningful innovation is multidimensional. It involves business model, organisation, process, product, materials management, logistics, technology, marketing, human resources and much else. It involves reconfiguring the value chain to create new sources of value. Nobody can relieve the individual company of the responsibility – and the pain – of developing an innovation agenda in response to its own individual situation.
24. Companies can, however, be assisted to develop and deliver the agenda. It is surely a prime role for Invest Northern Ireland to supply that assistance itself (where that is necessary or appropriate) or to see that the assistance is available elsewhere. That role may involve deepening the range and intensity of the client relationship with companies or finding new ways to stimulate companies to tap the available assistance. Much is already being done but the comprehensive review of Invest NI already proposed should identify whatever further measures are necessary. Invest NI itself should have a pretty good idea where it is failing to make impact and why, and how performance might be improved.
25. A recommendation made in the Report of the Industrial Task Force last year was that a Technology Centre should be established, possibly within the University sector and perhaps by reshaping, reinforcing and refocusing existing facilities. This would provide companies (particularly SMEs) with a road map of where their industry was heading and enable them to plot their position and see what steps they needed to take to remain competitive. We suggested that it should be a condition of assistance from Invest NI that companies had plotted their current position and planned the necessary repositioning.

Tourism

26. In our earlier Written Evidence we drew attention to the need to grow the Tourism sector so that it trebled its contribution to economic activity. Such an obvious opportunity to plug the wealth ‘gap’ should not be missed.

Postscript

27. The study by ERINI referred to at para. 92 on page 25 of Volume 1 was commissioned by the Industrial Task Force in the absence of any other means of having the corporation tax proposal independently evaluated.

28. At page 175 of Volume 2 it was suggested in evidence that I indicated that only 7% of Northern Ireland's exports are to the Republic. The figure I gave (at p164) was the correct figure of 27%.

Annex A

Global FDI

1. Clearly, if one is changing one's corporate tax arrangements in order to tap global FDI flows effectively in terms of both volume and quality, it is important to form a view as to what those flows are likely to be. An authoritative study – **World investment prospects to 2010**, an Economist Intelligence Unit report written with the Columbia Program on International Investment – has just been published. Beneath are key aspects of the study. It is plain that there are ample opportunities to be exploited.
2. Between 2006 and 2010 global FDI inflows are projected to grow at an annual average rate of 8%. The revival of global FDI that began in 2004 and is expected to continue through the medium term can be compared with the previous upturn in the 1990s, specifically with the period that began in 1994 and ended with the peak year of 2000.
3. Contrary to the experience of recent years and to widespread expectations about continued strong FDI growth in emerging markets, the bulk of the increase in global FDI in 2006-10 is expected to take place in the developed countries.
4. Western Europe will continue to be the world's largest recipient of FDI. The Main motive for the majority of foreign companies investing in the region will continue to be better access to one of the world's largest and wealthiest markets. The combination of a large market with dense industry clusters will also continue to make the region attractive as an investment location. Projected annual average FDI inflows into the region in 2006-10 will be above 3% of GDP – an historically high level and above the world average.
5. Globalisation has, to a very considerable extent, been driven by "transatlanticisation", and EU-US investment links will continue to be the main feature of globalisation over the remainder of the decade. The US and the EU are far more deeply integrated than any other economies on almost every measure, and the transatlantic economic relationship is set to deepen further. "Transatlanticisation" can be expected to continue apace, and to remain the most important bilateral FDI link in the world.
6. There is likely to be some acceleration of the relocation of labour-intensive manufacturing to emerging markets, although it is unlikely to be as dramatic as many observers hope or fear. Compared with earlier years, the outsourcing of services will accelerate, despite some signs that "outsourcing fatigue" has already appeared among many Western companies.
7. A saturation of investment is affecting some Chinese industries and this may deter further FDI. Intense price competition and rising raw-materials prices have cut profit margins in some sectors. For example, in 2005 Volkswagen (Germany) announced that it would cut investment plans for the period between 2006 and 2008 by 40%. Another dampening effect will come from the alignment of corporate tax rates levied on domestic and foreign firms (towards the higher domestic rate), expected probably in 2008. At present, foreign companies operating in China enjoy a preferential tax rate as low as 15%, compared with 33% for Chinese firms.

Northern Ireland Chamber of Commerce & Industry's Export Forum



Northern Ireland Chamber of Commerce & Industry's
Export Forum

Generating Export - an analysis of Northern Ireland SMEs into Export Research & Recommendations

22 September 2006

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Executive Summary

In November 2005 the President, Mark Sweeney, and the Management Committee of the Northern Ireland Chamber of Commerce and Industry (NICCI) identified a clear knowledge and impetus gap within the Northern Ireland SME sector in relation to conducting international business and specifically exporting.

To address this an Export Forum was set up to identify the reasons why and make recommendations as to how Invest Northern Ireland in partnership with the various business bodies might move forward strategically to address this trend.

The Forum was unanimous in starting from a solid base and so the process of information gathering, presentation and identifying solutions was conducted under strict benchmarking measures employing the 6 Sigma process.

As part of the information gathering the Export Forum contracted Millward Brown Ulster to conduct a survey of 100 existing and potential exporters to identify barriers to export.

The problems, which SMEs identified as barriers, can be distilled into four broad headings.

1. Lack of Desire
2. Lack of Awareness of Existing Support
3. Insufficient Export Expertise
4. Investment Risk Concerns

The Way Forward

In defining 'the way forward' the Export Forum has identified three main areas of focus deemed feasible in terms of time, cost and achievability constraints.

- Increase awareness of the export opportunity and existing support
- Consolidation of existing support
- Enhanced suite of SME targeted support tools

Based on this analysis the Export Forum is pleased to present the following recommendations.

Export Forum Recommendations

(i) Increase awareness of the export opportunity and existing support

1. Develop a multi-media marketing campaign tapping into the combined resources of the stakeholders involved in export related work. This would include development of rolling case studies to champion the excitement in the export opportunity and communicate the availability of support services through export road-shows hosted or supported by local business organisations.

(ii) Consolidation of existing support

2. Invest Northern Ireland should fund a project to identify and draw together existing export expertise under one ‘information umbrella’ to ensure maximum visibility and accessibility of all export related work from government and non-government organisations. This project would retain the support of those on the Export Forum as leverage to achieve specific time-framed goals.

(iii) Enhanced suite of SME targeted support tools

3. Develop an Export Shop Website with agreement from, and investment by, the key stakeholders which taps into the wealth of information and support available. This might sit within the realms of www.nibusinessinfo.com and perhaps accessed through www.onlineni.com

4. Complement this capability with dedicated “Export Shop” expertise, which can provide targeted support on a one-on-one basis to companies with export challenges and issues. This should attempt to offer local services to address ‘in-market’ knowledge, payment and currency issues and point to point logistics.

5. Establish, as a further phase of this development, a physical “Export Shop” as the Export Centre of Excellence for support for all export related issues and questions.

6. Develop a structured mentor programme for SMEs dealing specifically with the perceived barriers and to act as a peer-to-peer advisory service.

7. Engage with Department of Education and Learning, the Universities and FE colleges to develop a complete suite of courses and qualifications in export sales and international business. These would range from short developmental courses to full time postgraduate courses in export sales. The ultimate goal would be to achieve sales and marketing prominence in every course (from engineering to politics) and, where possible, include practical experience.

The Forum would hope also to bring this priority issue further into Invest Northern Ireland’s strategic focus as follows:

8. Invest Northern Ireland to establish clear tangible goals for **SME export growth** with Client Executive targets directly tied to these goals.

9. Invest Northern Ireland to channel additional funds to ‘incentivise’ export growth in the SME sector. This would include dedicated funds to support full implementation of the export Forum recommendations as detailed above.

Conclusion

It is clear from the results of the survey that there is significant room for improvement in SME export support. However it would appear that the steps to be taken in encouraging SMEs into export are not complex but straightforward and achievable. The keys appear to be a focused and unified approach, accurate information distribution and targeted support.

In a recent UKTI meeting attended by Eamonn Fitzpatrick, Chairman of FM Environmental and a member of the Export Forum, it appears that as a region, Northern Ireland is not alone in SME reticence to engage in international business. Other regions including West Midlands have conducted almost identical research and come up with remarkably similar conclusions. (Market Research Project for Trade Partners UK West Midlands conducted by Mentors in Marketing Jan-March 2003)

The Export Forum believes that if the recommendations outlined above are fully implemented they will address the main export barriers identified by SME companies in Northern Ireland. This should be a catalyst for increased participation by current exporters and engagement by new entrants resulting in a significant contribution to the growth of exports in the SME sector.

It is hoped that Invest Northern Ireland will favourably respond to the recommendations of this report and that in partnership with other Government departments and business stakeholders will use it as a springboard to accelerate the pace of export growth in the SME sector. NICCI will also continue to play a proactive leadership role in this process because SME export growth is vitally important both to the member companies of NICCI and to the future prosperity of the Northern Ireland economy.

NICCI's Export Forum extends its gratitude to the Forum members and to the additional contributors from FG Wilson (Engineering) Ltd/Caterpillar and Rotary Group for their experience, ideas and commitment and to Invest Northern Ireland for the support they have provided to the Export Forum in carrying out this work.

Dr Mark Sweeney

**Chairman, Export Forum and
President of the Northern Ireland Chamber of Commerce & Industry**

For further information contact: Sarah Kelly, Northern Ireland Chamber of Commerce & Industry +44 (0) 28 9024 4113 or sarah.kelly@northernirelandchamber.com

Introduction

In November 2005 the President, Mark Sweeney, and Management Committee of the Northern Ireland Chamber of Commerce and Industry (NICCI) identified a clear knowledge and impetus gap within the Northern Ireland SME sector in relation to international business and specifically exporting.

To address this an Export Forum was set up to identify the reasons why and make recommendations as to how Invest Northern Ireland in partnership with the various business bodies might move forward, strategically, to respond to this trend.

The Export Forum members are as follows:

- Mark Sweeney (Chairman) – Managing Director, FG Wilson (Engineering) Ltd and President of the Northern Ireland Chamber of Commerce & Industry
- Eamonn Fitzpatrick – Chairman, FM Environmental Ltd
- Frank Hewitt – Chief Executive, Northern Ireland Chamber of Commerce & Industry
- Alan Hingston – Head of Trade Development, Invest Northern Ireland
- Michael Hughes – Managing Director, Irish Art Group
- Francis Jennings – Managing Director, Rotary Group Ltd
- Sarah Kelly – Projects Manager, Northern Ireland Chamber of Commerce & Industry
- Roger Kennedy – Black Belt 6 Sigma, FG Wilson (Engineering) Ltd
- Mike Mills – Managing Partner, Jigsaw Tree

Contributors:

- Colin Clements – Master Black Belt 6 Sigma, FG Wilson (Engineering) Ltd
- Pat Malcolmson – Director of Sales, FG Wilson (Engineering) Ltd
- Henry Rebbeck – Mechanical Estimator, Rotary Group Ltd

The Forum was unanimous in recognising the importance of starting from a solid information base and so the process of information gathering, presentation and identifying solutions was conducted under strict benchmarking measures employing the 6 Sigma process.

<p>Millward Brown Research</p> <p>Millward Brown Ulster was invited by NICCI's Export Forum to conduct a research project in order to gain an insight into constraints and barriers that SMEs face when exporting, as well as triggers that would encourage them to begin exporting or increase their participation and to clarify what help or assistance these businesses would find constructive in developing their exporting activities.</p> <p>The main component was a telephone survey and all interviews were conducted via telephone, from the Millward Brown Ulster Telephone Centre in Belfast with respondents to the survey at the most senior level in the organisation – either CEO / MD / Proprietor.</p> <p>The second component was two business focus groups held in the week prior to the fieldwork.</p> <p>The total sample size was 100 respondents and was based on information provided by NICCI of 250 companies deemed to have the potential to start exporting or expand their existing exporting.</p> <p>The fieldwork dates were Tuesday 25 April-Friday 5 May 2006.</p>
<p>Focus Groups</p> <p>To add more insight to the quantitative telephone research, and also to act as a pre-test for the questionnaire for the telephone survey, two focus groups were held with representatives from businesses supplied by NICCI.</p> <p>One group was held in Newry and one in Belfast, in order to gain opinions of businesses within both the Belfast area, and also a non-Belfast area, giving a better geographical representation of business opinions within Northern Ireland.</p> <p>Each group was made up of 4 or more key decision-makers of businesses within these areas. All companies involved in the groups, had some experience of exporting, although they were not selected in this way.</p>
<p>Key findings of Focus Groups</p> <p>Some key issues arose spontaneously in the general area of exporting.</p> <ol style="list-style-type: none"> 1. A key point within both groups was the need for introductions to useful and appropriate contacts in their target markets. 2. Market and country specific intelligence was another great need amongst these companies. Their feeling was that Invest Northern Ireland supply a lot of general information, but a much more tailored approach is required, with detailed information, taking into account both type of company and target market. With this suggestion, the difficulties, cost and magnitude of taking this approach to assistance was recognised, but the general feeling was that resources could be moved away from what is currently produced, to go towards this more bespoke approach. 3. Another suggestion which was seen across both groups, was to have one point of contact in the field (of the target country for export). This person would be able

to provide very country specific information, regarding things such as legislation issues that may affect a company exporting to it, specific product quality/safety requirements, cultural information and in general, better information on that market in order to better prepare them for the process.

4. Currency issues.
5. Delivery and transport issues.
6. Many problems are centred around the length of time involved in the grant application process with Invest Northern Ireland.

Views on Forms of Assistance

In general, there seems to be a lack of awareness, particularly by the smaller businesses, that these forms of assistance exist and of the bodies that could be used for help with exporting. Some of these had been used by the businesses and general feedback was given;

1. Trade Missions
 - Involve a lot of time and expense for the business
 - There was a lack of awareness that these were offered, and also of what type of businesses they were open to.
2. Trade Fairs
 - Only two of the companies in the groups had used these, but they had very positive views on the usefulness of these to their business, in terms of getting their product out there and that they bring all the right contacts together.
3. Embassies
 - The general feeling throughout both focus groups was a lack of awareness that these could be used as a source of help in this area.
4. Clusters
 - Some comments in the Belfast group, suggested that sometimes there could be drawbacks with these if any of their key competitors are in the group.
5. Edge Explorers Programme
 - The feeling coming through about this, was that graduates are not really what is needed as so much time is involved in training them up in the company, before they can start being of any use.

Millward Brown Research Observations

On completion of the focus groups Millward Brown Ulster conducted a survey of existing and potential exporters to identify barriers to export. The following details the most salient points from the telephone survey.

- Encouragingly, just over 6 in 10 (62%) of the businesses interviewed are currently exporting their products or services outside Northern Ireland, with smaller proportions of businesses in the North West area (44%) and in the service sector (56%) doing so. Almost two thirds (63%) of those companies who export, have been doing so for more than four years, with just less than 1 in 10 (8%) companies who export, having started within the last 6 months. As would be expected, the two closest markets receive the highest level of exports from companies in Northern Ireland. More than 8 in 10 (84%) companies are currently exporting to the Republic of Ireland, while 6 in 10 (60%) export to Great Britain.
- The North American market also features strongly, with USA accounting for just over 1 in 5 (21%) and Canada (15%). Smaller proportions of exporting are seen to European countries, mainly our nearest European neighbours.
- Of those companies who are not currently exporting, only one third (34%) plan to do so in the future. The preferred timescale for starting to do so is mainly between 6 months and 2 years. As expected, the country most preferred as a first time market is Republic of Ireland, most likely due to it being seen as a market they know and a relatively safe one to begin their exporting.
- The main constraints to exporting that were spontaneously cited by companies planning to export in the future were similar to those mentioned by those currently exporting. Again, finding a customer base and making the company known in the market, costs and transportation were seen as possible constraints or hurdles. A point which these non-current exporters mention and that was also expressed by the focus groups, was the lack of information and advice from Invest Northern Ireland. Specifically a general lack of help and pro-activeness on any issue.
- The main factors that would have a severe impact on future exporting are perceived to be time taken in processing grants and other governmental support applications (7 out of 13) and payment problems and credit risks (7 out of 13), with 6 out of 13 also mentioning the cost of doing market research and the lack of governmental support.
- When current exporters were asked to spontaneously cite the main constraints and hurdles in expanding their export business, just over 1 in 5 (21%) cited difficulties in identifying customer target, a view which was emphasized by the focus groups. A lack of finance was the next biggest constraint for almost 2 in 10 companies (18%) along with Currency/Exchange rate risks (11%) and a shortage of labour (11%). Smaller proportions cited distance or geographical difficulties (6%), time constraints (6%), competition (5%) and legislation (5%).
- When asked to rate the impact of certain factors on the expansion of their export business, the most severe was the time taken in processing grants and other applications (27%) and payment problems and credit risks (27%).
- Almost one quarter (24%) of those interviewed rated lack of resources and managerial time; currency or exchange risks; and coping with foreign languages as all having a severe impact. Establishing distribution channels (23%) and the overall perceived cost of starting to export (21%) were also both seen to have severe impact. For 3 in 10 (30%) of the companies interviewed, development of their export business is not part of their company strategy. The main reasons cited for this are, that they are doing well enough in the home market (25%) and that it is not suited to their type of business (25%). Financial constraints of exporting were also significant, 18% citing that it was too expensive for their size of company.
- Awareness levels of Invest Northern Ireland export development services are low, with highest levels of awareness for the Trade Fair/Exhibition Programme (52%), the Trade Mission Programme (50%) and the Business Information centre (47%), with a further

<p>third (36%), aware of both their In-market support and EDGE Explorers connections. Usage levels of these services are very low, with the most used services, the Trade Mission programme at just under 1 in 10 (16%) and a further (15%) using the Business Information centre.</p> <ul style="list-style-type: none"> • Awareness levels of export development services from other organisations were at a very low level, with almost 6 in 10 (59%) of companies not aware of any of them. Just over one quarter (26%), were aware of Enterprise Ireland's services, with almost 2 in 10 respondents aware that the Local Enterprise agencies (17%) and the Local Councils (15%) provide these services. Usage of these services was particularly low. • When asked to spontaneously cite the forms of assistance or additional export services that Invest NI or other export providers could offer, 1 in 5 (20%) said that they could offer no assistance. The main requirement, cited by 1 in 5 (20%) is more government funding and support, echoing the issues of finance and lack of government assistance that were seen to be constraining factors. Other forms of assistance mentioned were, trade links, contacts and specific market research (10%), advice on financial incentives and legislation (7%) and help with marketing and promotions (7%). When asked to rate the perceived value of some suggested offerings or assistance from Invest Northern Ireland, all the offerings were rated valuable by more than half of respondents, however, the two most valued offerings were seen to be market research information and introductions to potential overseas customers.
<p>SMEs Perceived Constraints</p> <p>The main constraints that businesses face when exporting are:</p> <ul style="list-style-type: none"> • Lack of awareness of available assistance from Invest Northern Ireland and other bodies • Finding their target customer base and making the right contacts within this • Lack of finance • Lack of government support/funding • Currency/exchange risks • Transportation difficulties • Language difficulties
<p>SMEs View on Overcoming Constraints</p> <p>These constraints can be overcome by the most valued offerings suggested, which were:</p> <ul style="list-style-type: none"> • Market research information • Introductions to potential overseas customers • Provision of information on possible hurdles that the business may face or factors that may affect them in the new market-place such as, legislation, currency, culture and transportation • A tailored approach to assistance, where contacts within the target countries and sectors can provide specific market information • Advice on any funding that may be available to the business

Export Forum Improvement Areas

Based on the Millward Brown research findings the Export Forum distilled the information into key areas which could be measured on the basis of time/ cost/ achievability using the 6 Sigma process.

The barriers, which appeared most prominently, were as follows:

- **Lack of Desire** (Don't want to)
25% of respondents said they were doing well enough in the home market, 14% said they had no need to export.
- **Lack of Awareness of the Existing Support**
Only 50% of respondents were aware of Invest Northern Ireland's range of export development services and only 41% were aware of export support services from other business organisations.
- **Insufficient Export Expertise** (Don't know how to)
21% cited this as the main problem. This comprised areas relating to market *intelligence, distribution and export knowledge*.
- **Investment Risk Concerns**
40% of companies highlighted the following as issues when considering exporting - lack of money, currency/exchange rates and shortage of labour.

The Way Forward

Having evaluated some 30 ideas relative to time constraints, cost constraints and achievability through a rigorous 6 Sigma prioritisation process, the Forum rationalised its recommendations to propose the following 3-step approach to addressing the main barriers to SME export growth.

- Increase awareness of the export opportunity and existing support
- Consolidation of existing support
- Enhanced suite of SME targeted support tools

Export Forum Recommendations

(i) Increase awareness of the export opportunity and existing support

1. Develop a multi-media marketing campaign tapping into the combined resources of the stakeholders involved in export related work. This would include development of rolling case studies to champion the excitement in the export opportunity and communicate the availability of support services through export road-shows hosted or supported by local business organisations.

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It is hoped that Invest NI will favourably respond to the recommendations of this report and that in partnership with other Government departments and business stakeholders will use it as a springboard to accelerate the pace of export growth in the SME sector. NICCI will also continue to play a proactive leadership role in this process because SME export growth is vitally important both to the member companies of NICCI and to the future prosperity of the N. Ireland economy.

Export Forum Report
Northern Ireland Chamber of Commerce & Industry
22 September 2006

Appendix I



Northern Ireland Chamber of Commerce and Industry Export Forum Research



April 2006



BACKGROUND



- Millward Brown Ulster was asked by NICCI Export Forum to conduct a research project in order to gain an insight into constraints and barriers that SMEs face when exporting, as well as triggers that would encourage them to begin exporting or increase their participation and to clarify what help or assistance these businesses would find constructive in developing their exporting activities.
- The main component was a telephone survey. All interviews were conducted via telephone, from the Millward Brown Ulster Telephone Centre in Belfast.
- The second component was two business focus groups held in the week prior to the fieldwork.
- Fieldwork dates: Tuesday 25th April-Friday 5th May 2006
- Total sample size: 100 respondents
- Sample –(supplied by Henry Rebbeck); of companies who are deemed to have the potential to start exporting or expand their existing exporting.
- All respondents at most senior level in organisation-CEO / MD / Proprietor





Executive Summary



- ❑ Encouragingly, just over 6 in 10 (62%) of the businesses interviewed are currently exporting their products or services outside N.Ireland, with smaller proportions of businesses in the North West area (44%) and in the service sector (56%) doing so.
- ❑ Almost two thirds (63%) of those companies who export, have been doing so for more than four years, with just less than 1 in 10 (8%) companies who export, having started within the last 6 months.
- ❑ As would be expected, the two closest markets receive the highest level of exports from companies in N.Ireland. More than 8 in 10 (84%) companies are currently exporting to the Republic of Ireland, while 6 in 10 (60%) export to Great Britain.
The North American market also features strongly, with USA accounting for just over 1 in 5 (21%) and Canada (15%). Smaller proportions of exporting are seen to European countries, mainly our nearest European neighbours.





- ❑ Of those companies who are not currently exporting, only one third (34%) plan to do so in the future. The preferred timescale for starting to do so is mainly between 6 months and 2 years. As expected, the country most preferred as a first time market is Republic of Ireland, most likely due to it being seen as a market they know and a relatively safe one to begin their exporting.
- ❑ The main constraints to exporting that were spontaneously cited by companies planning to export in the future were similar to those mentioned by those currently exporting. Again, finding a customer base and making the company known in the market, costs and transportation were seen as possible constraints or hurdles. A point which these non-current exporters mention and that was also expressed by the focus groups, was the lack of information and advice from Invest NI. Specifically a general lack of help and pro-activeness on any issue.



The main factors that they perceive would have a severe impact on future exporting are time taken in processing grants and other governmental support applications (7 out of 13) and payment problems and credit risks (7 out of 13), with 6 out of 13 also mentioning the cost of doing market research and the lack of governmental support.

- ❑ When current exporters were asked to spontaneously cite the main constraints and hurdles in expanding their export business, just over 1 in 5 (21%) cited difficulties in identifying customer target, a view which was emphasized by the focus groups. A lack of finance was the next biggest constraint for almost 2 in 10 companies (18%) along with Currency/Exchange rate risks (11%) and a shortage of labour (11%). Smaller proportions cited distance or geographical difficulties (6%), time constraints (6%), competition (5%) and legislation (5%).





- ❑ When asked to rate the impact of certain factors on the expansion of their export business, the most severe were the time taken in processing grants and other applications (27%) and payment problems and credit risks (27%). Almost one quarter (24%) of those interviewed rated lack of resources and managerial time; currency or exchange risks; and coping with foreign languages as all having a severe impact. Establishing distribution channels (23%) and the overall perceived cost of starting to export (21%) were also both seen to have severe impact.
- ❑ For 3 in 10 (30%) of the companies interviewed, development of their export business is not part of their company strategy. The main reasons cited for this are, that they are doing well enough in the home market (25%) and that it is not suited to their type of business (25%). Financial constraints of exporting were also significant, 18% citing that it was too expensive for their size of company.



- ❑ Awareness levels of Invest N.I export development services are low, with highest levels of awareness for the Trade Fair/Exhibition Programme (52%), the Trade Mission Programme (50%) and the Business Information centre (47%), with a further third (36%), aware of both their In-market support and EDGE Explorers connections. Usage levels of these services are very low, with the most used services, the Trade Mission programme at just under 1 in 10 (16%) and a further (15%) using the Business Information centre.
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- ☐ When asked to spontaneously cite the forms of assistance or additional export services that Invest NI or other export providers could offer, 1 in 5 (20%) said that they could offer no assistance. The main requirement, cited by 1 in 5 (20%) is more government funding and support, echoing the issues of finance and lack of government assistance that were seen to be constraining factors. Other forms of assistance mentioned were, trade links, contacts and specific market research (10%), advice on financial incentives and legislation (7%) and help with marketing and promotions (7%).
- ☐ When asked to rate the perceived value of some suggested offerings or assistance from Invest NI, all the offerings were rated valuable by more than half of respondents, however, the two most valued offerings were seen to be market research information and introductions to potential overseas customers.



Conclusions

- ☐ There is a distinct lack of awareness of all of the export development assistance that is currently offered by both Invest NI and other bodies. Businesses in N.Ireland need to be made more aware of this assistance and support, that is ultimately for them to avail of.
More pro-activeness on behalf of Invest NI and the other bodies is needed in order that they will benefit from any support or help in overcoming the hurdles or constraints that they face when exporting.
- ☐ The main constraints that businesses face when exporting are:
 - Finding their target customer base and making the rights contacts within this.
 - Lack of finance
 - Lack of government support/funding
 - Currency/exchange risks
 - Transportation difficulties
 - Language difficulties



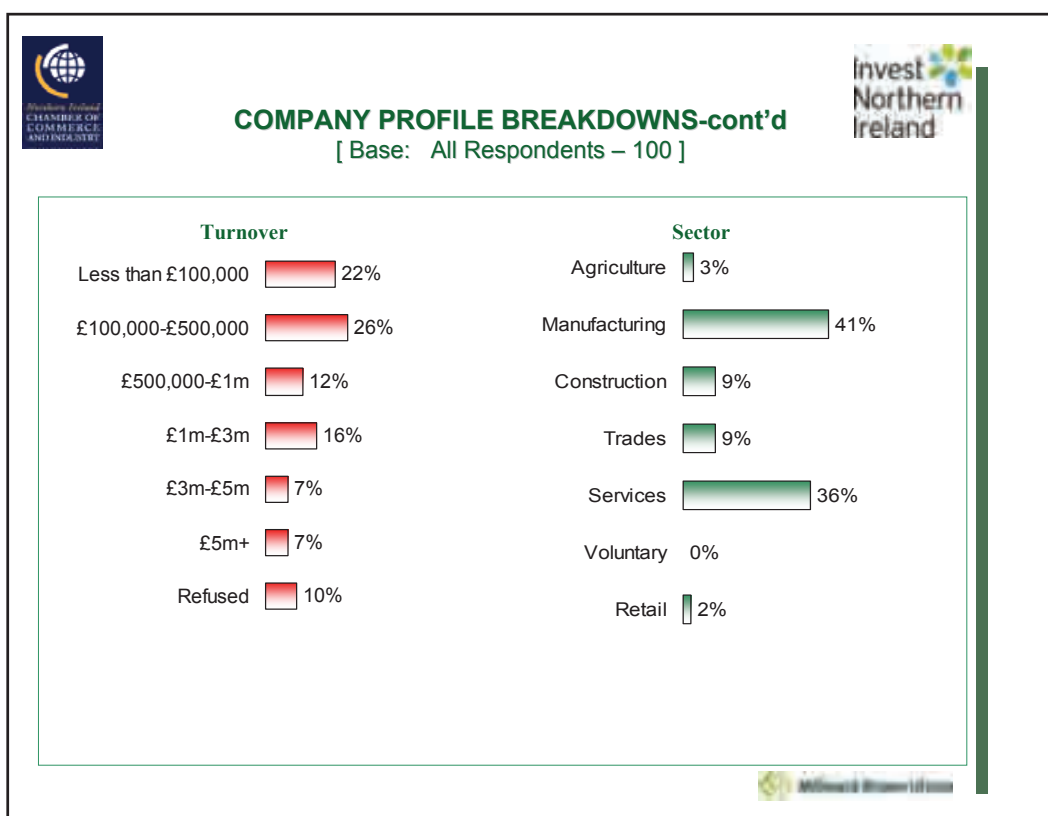
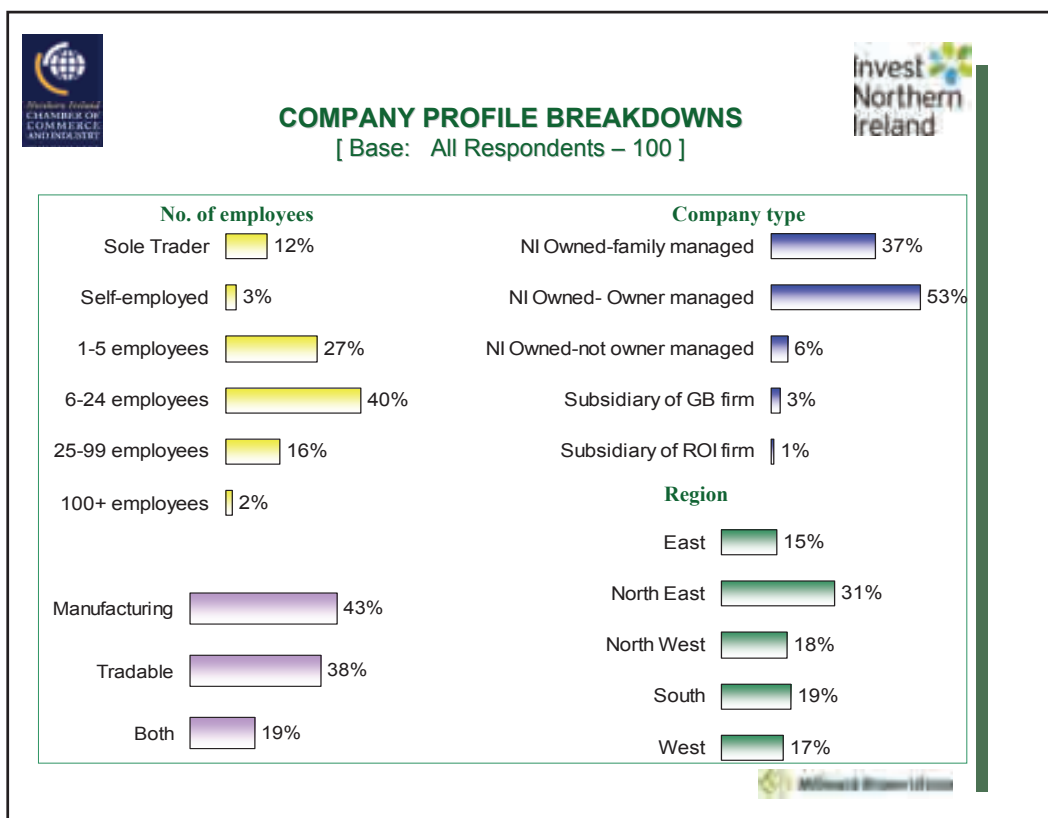


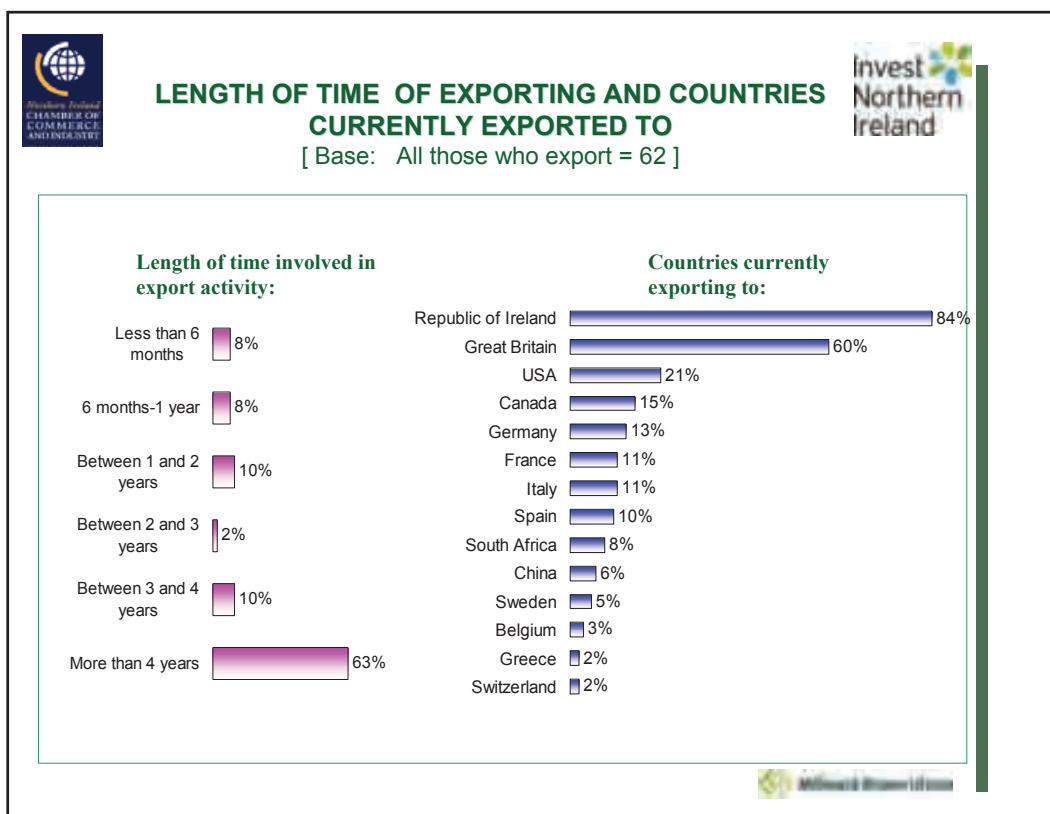
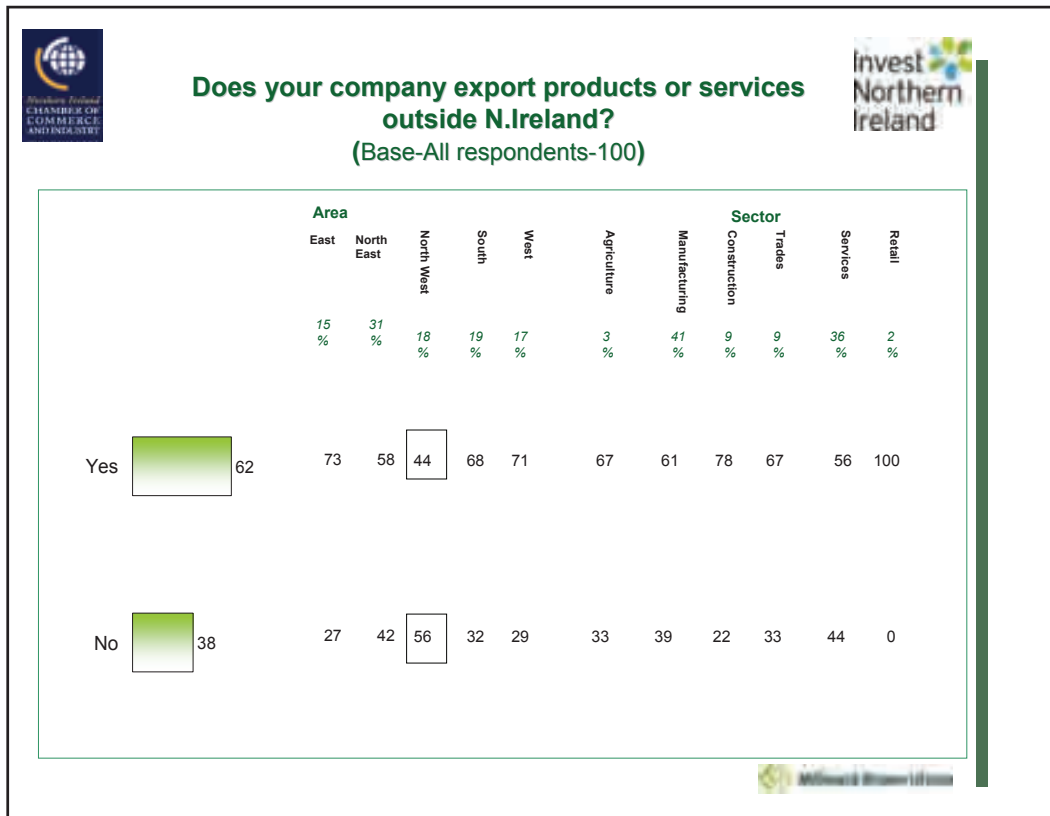
- ❑ These constraints are can be overcome by the most valued offerings suggested, which were:
 - Market research information
 - Introductions to potential overseas customers
 - Provision of information on possible hurdles that the business may face or factors that may affect them in the new market-place such as, legislation, currency, culture and transportation.
 - A tailored approach to assistance, where contacts within the target countries and sectors can provide specific market information.
 - Advice on any funding that may be available to the business.

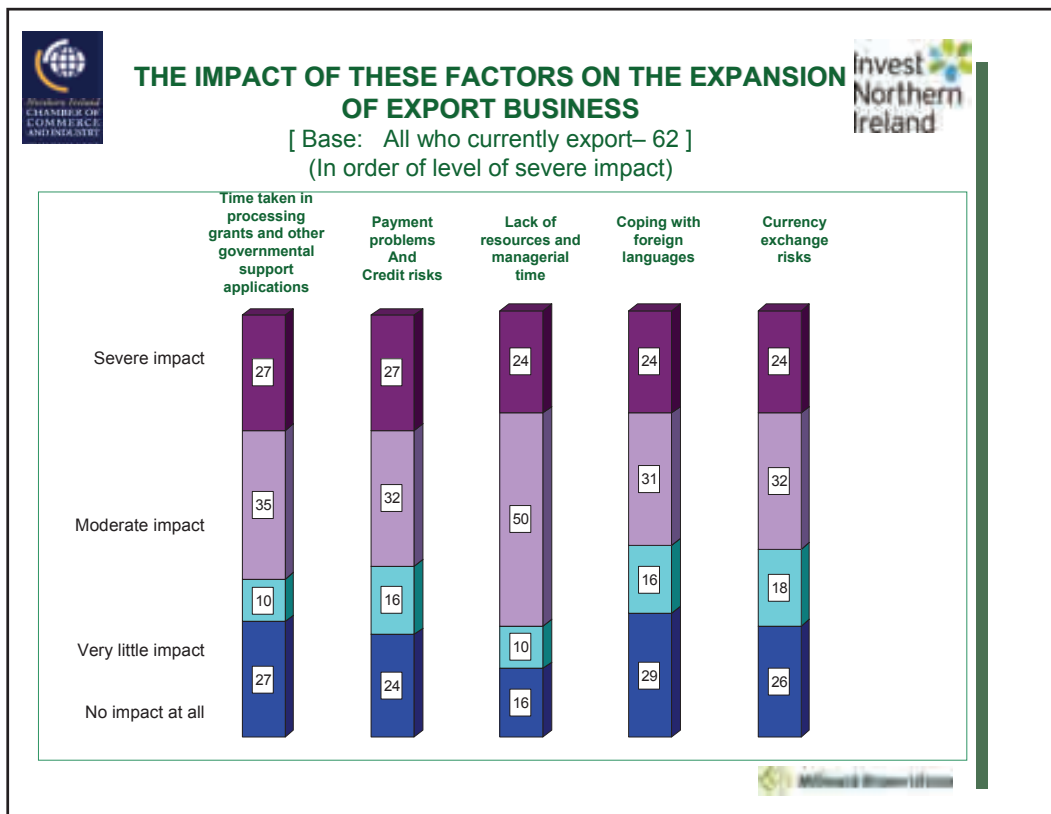
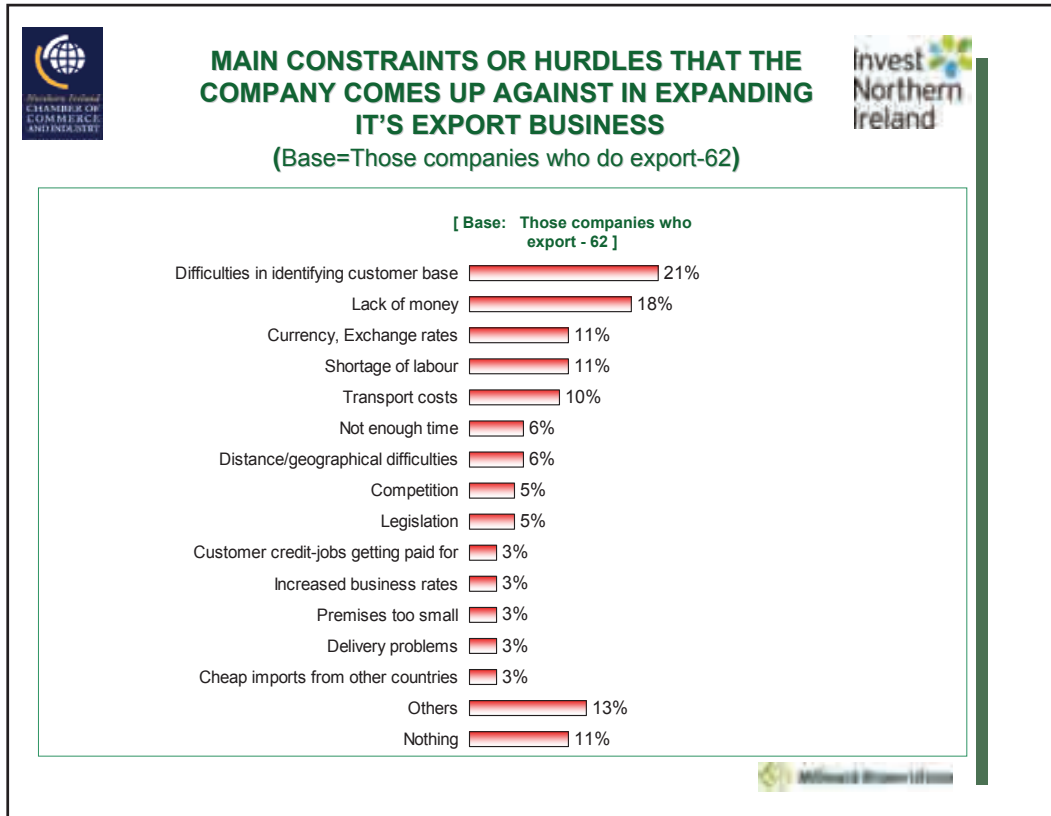


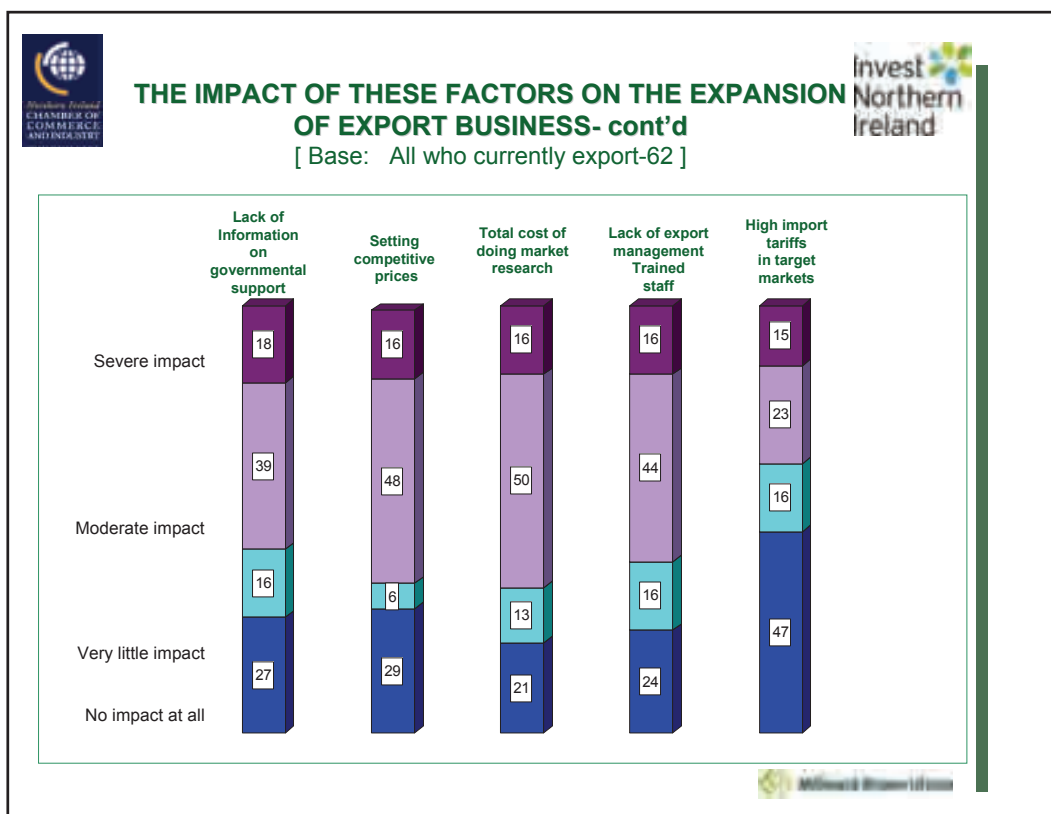
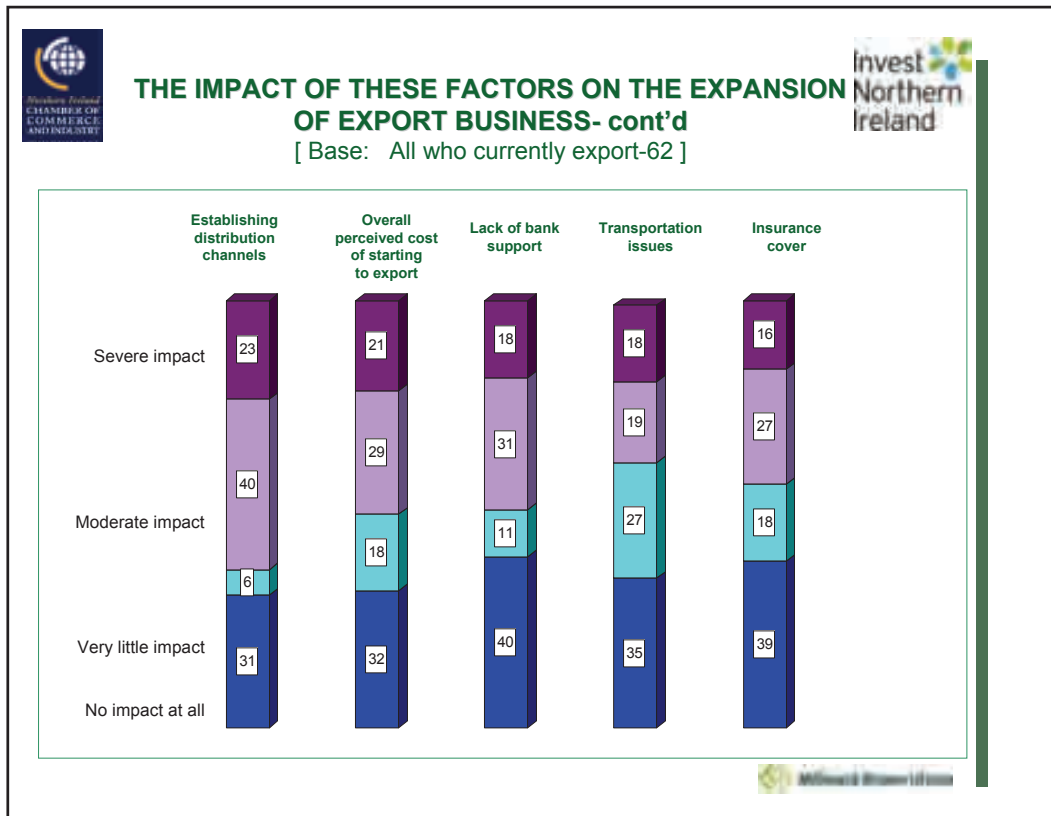
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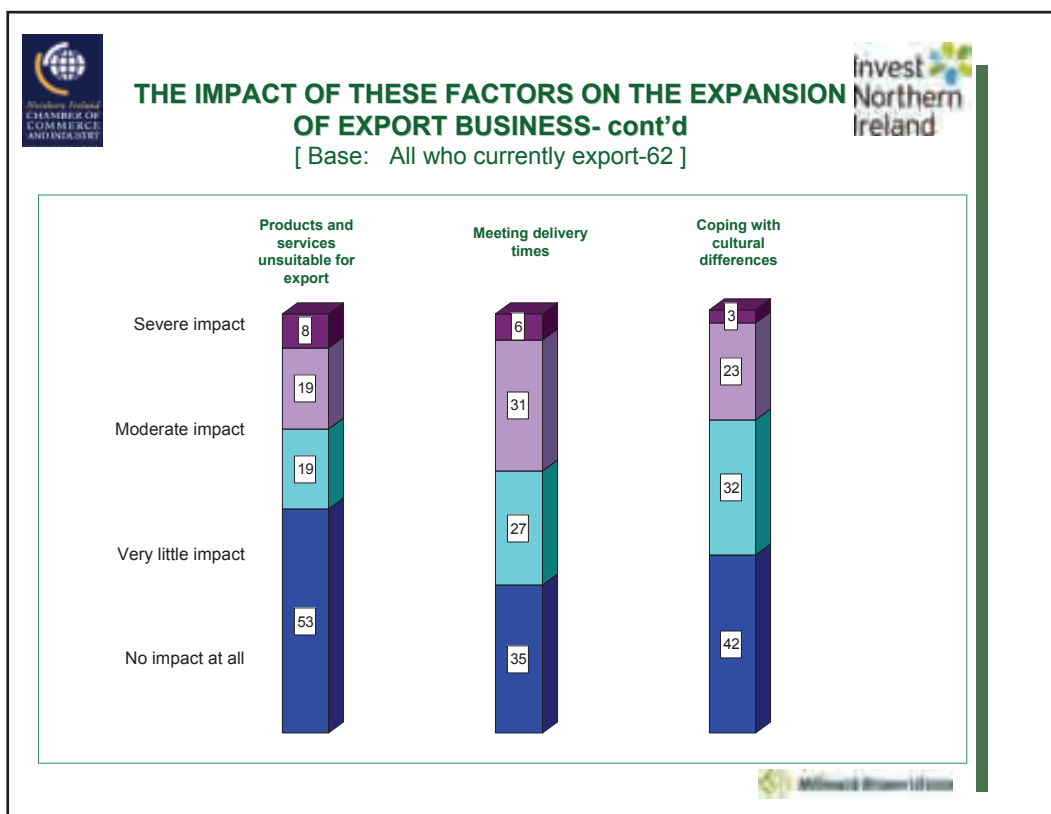
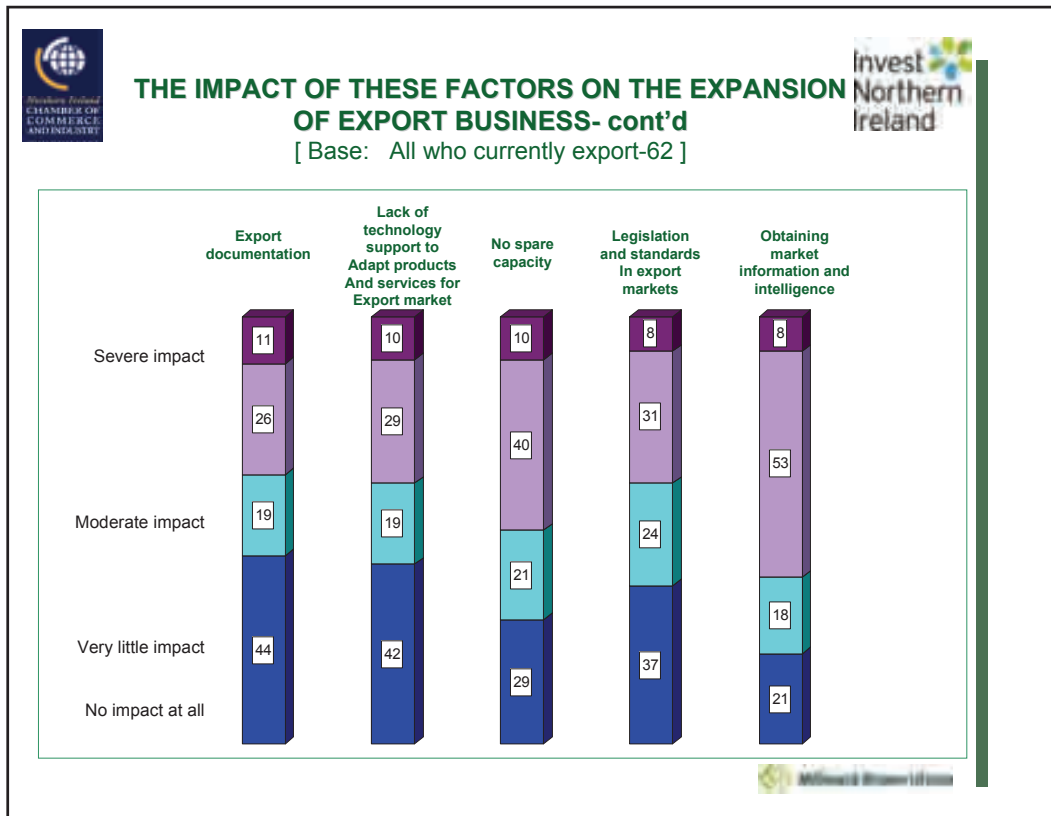


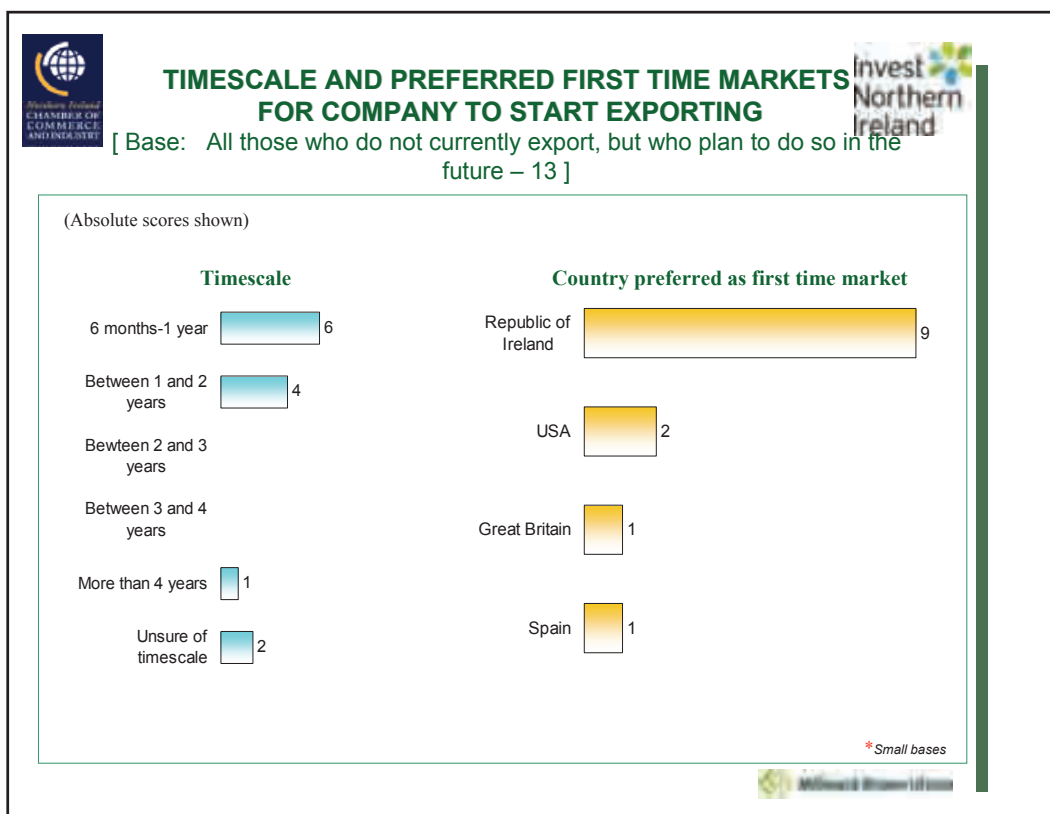
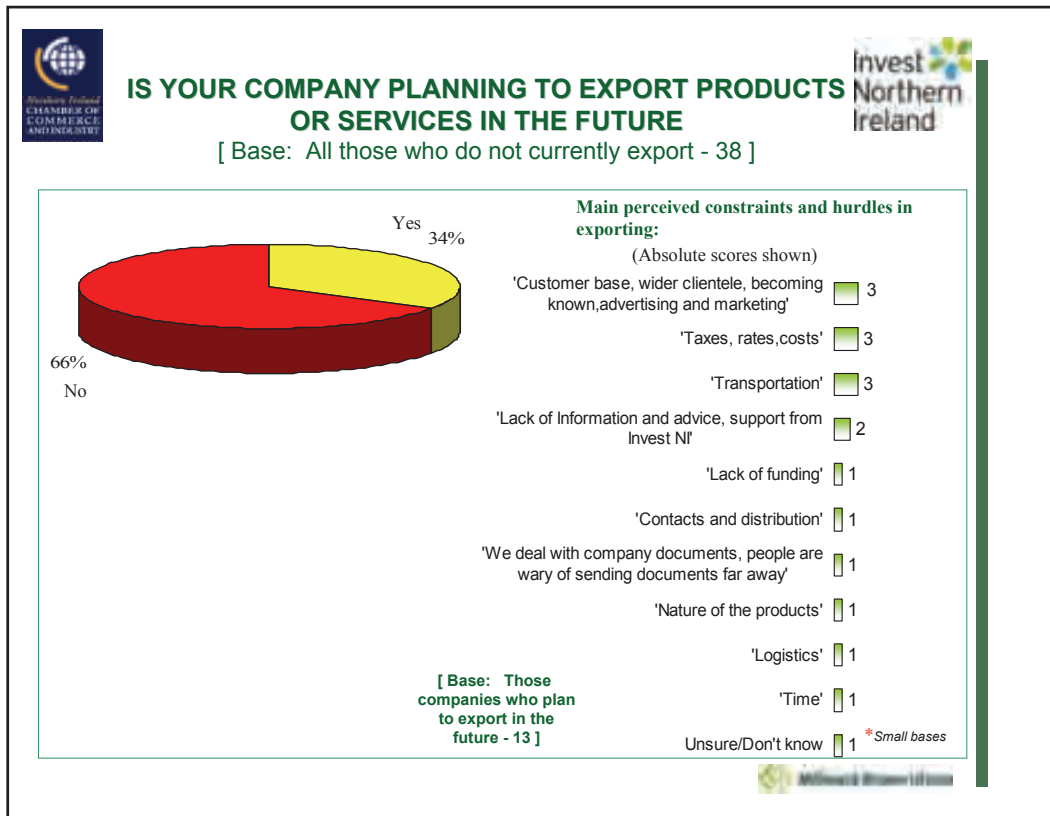


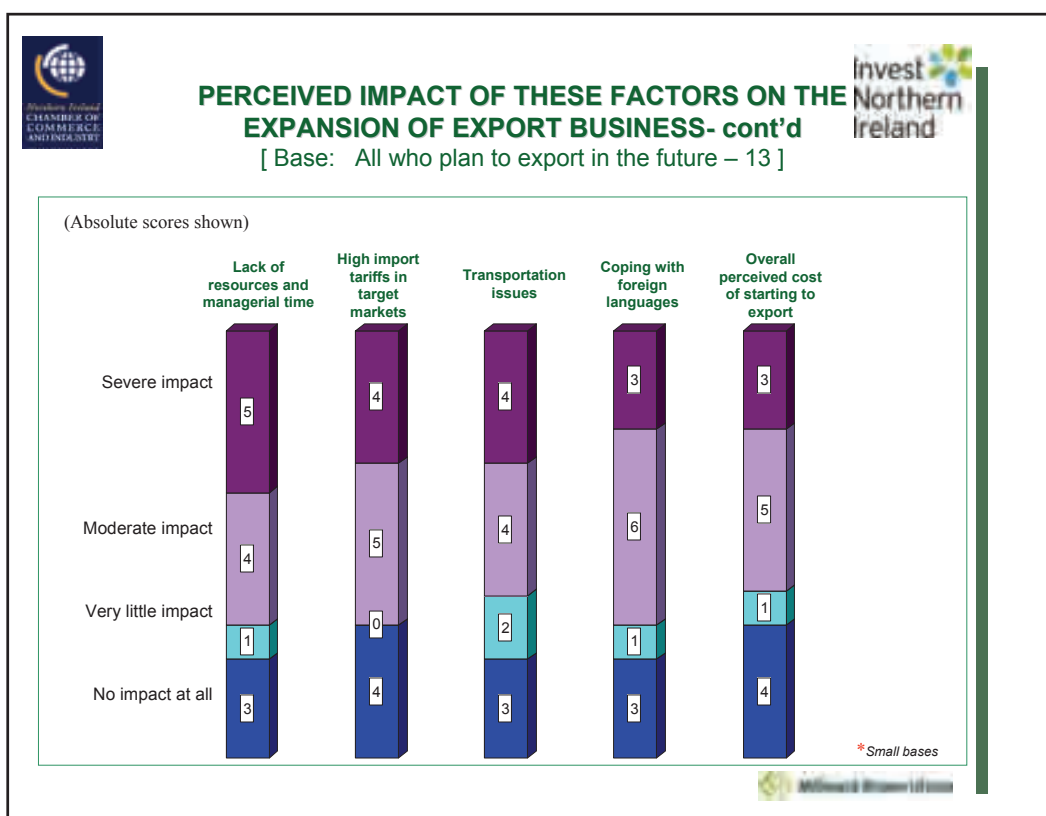
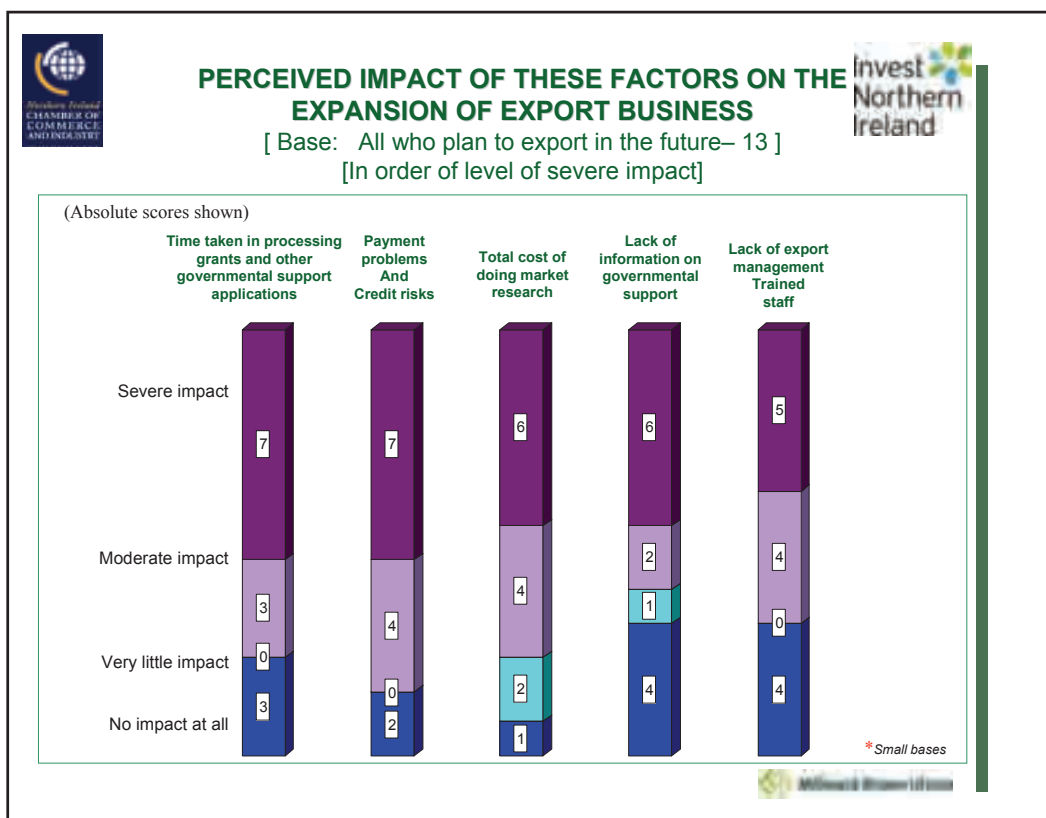


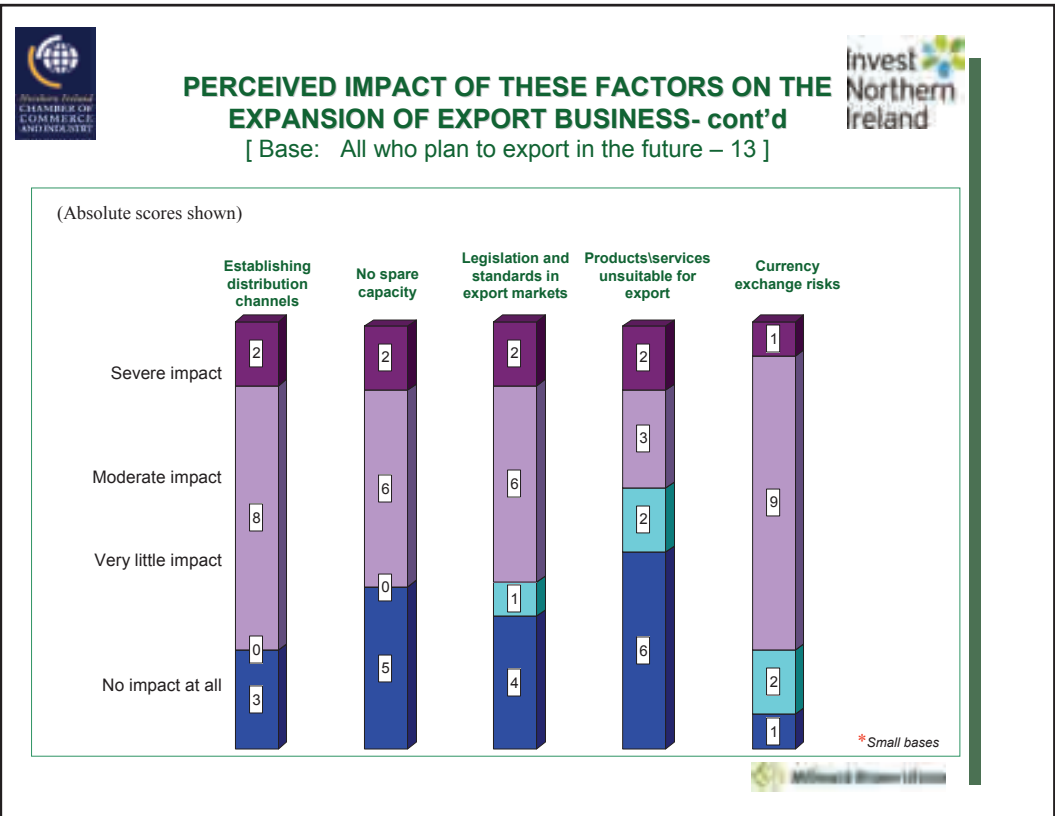
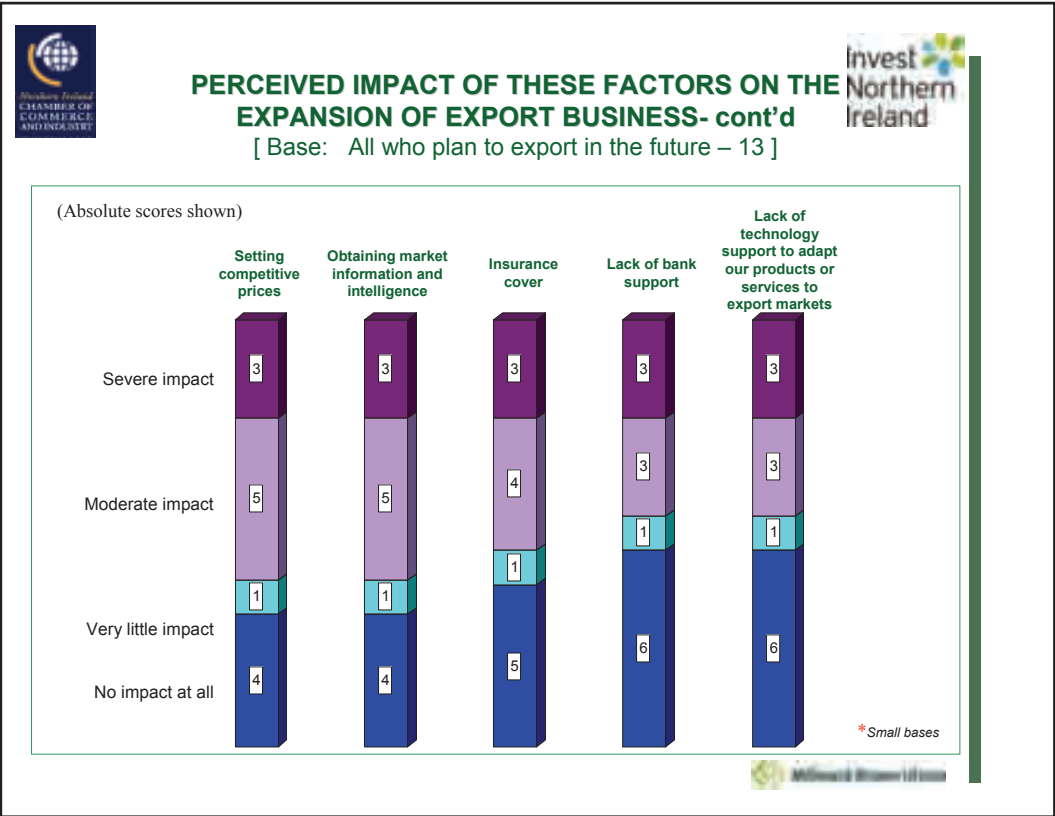


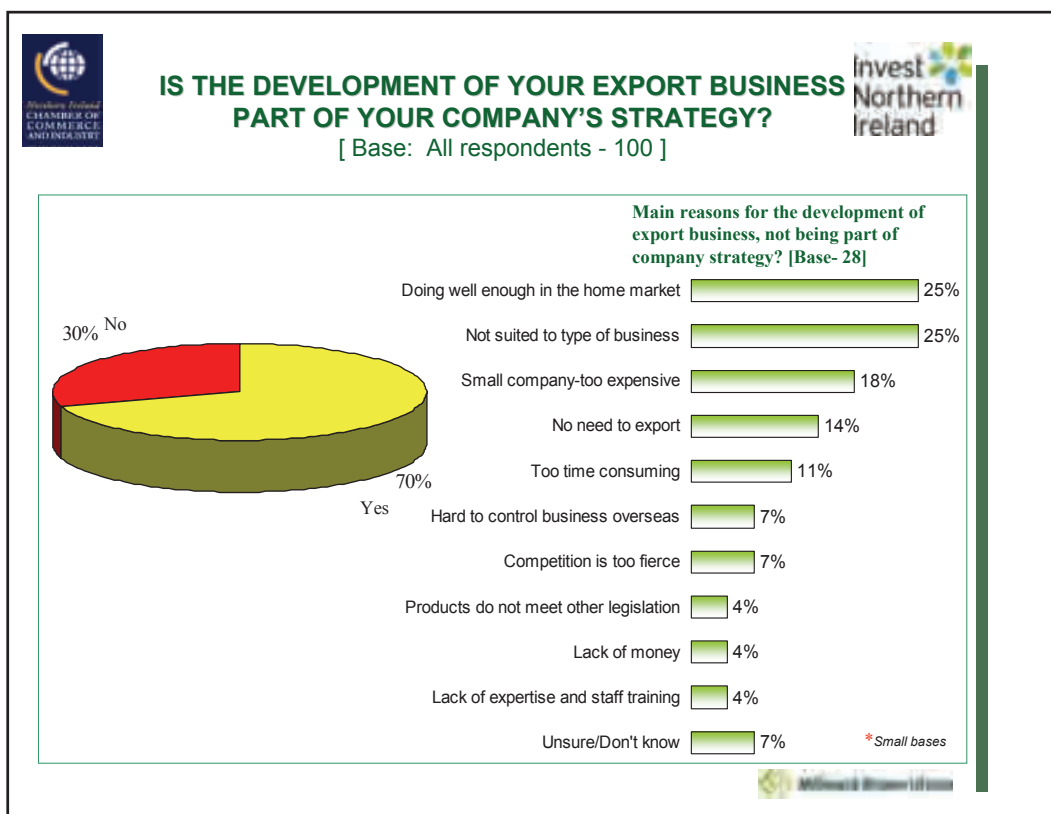
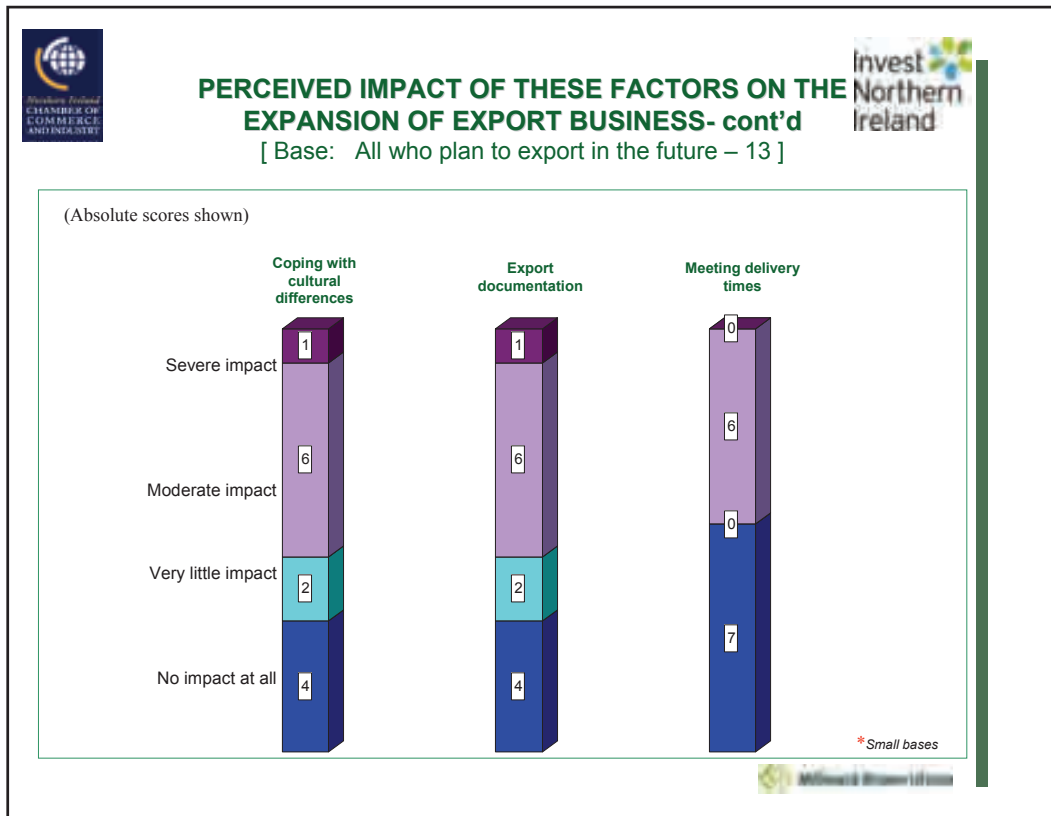


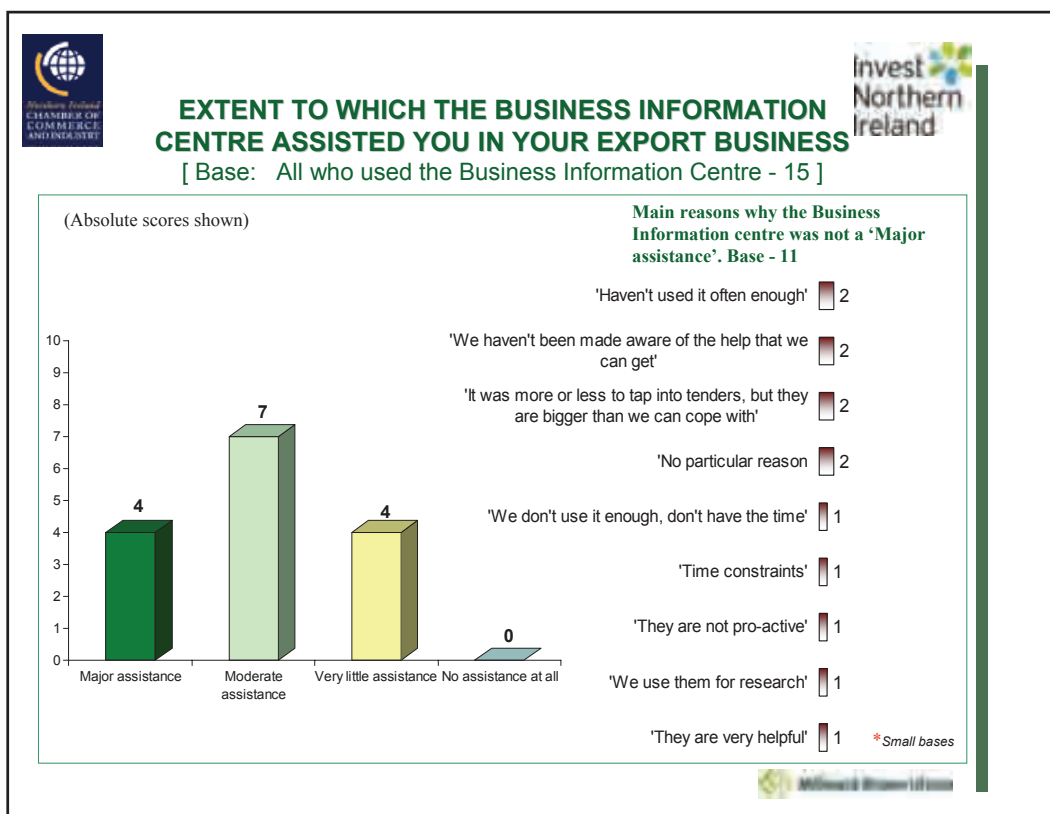
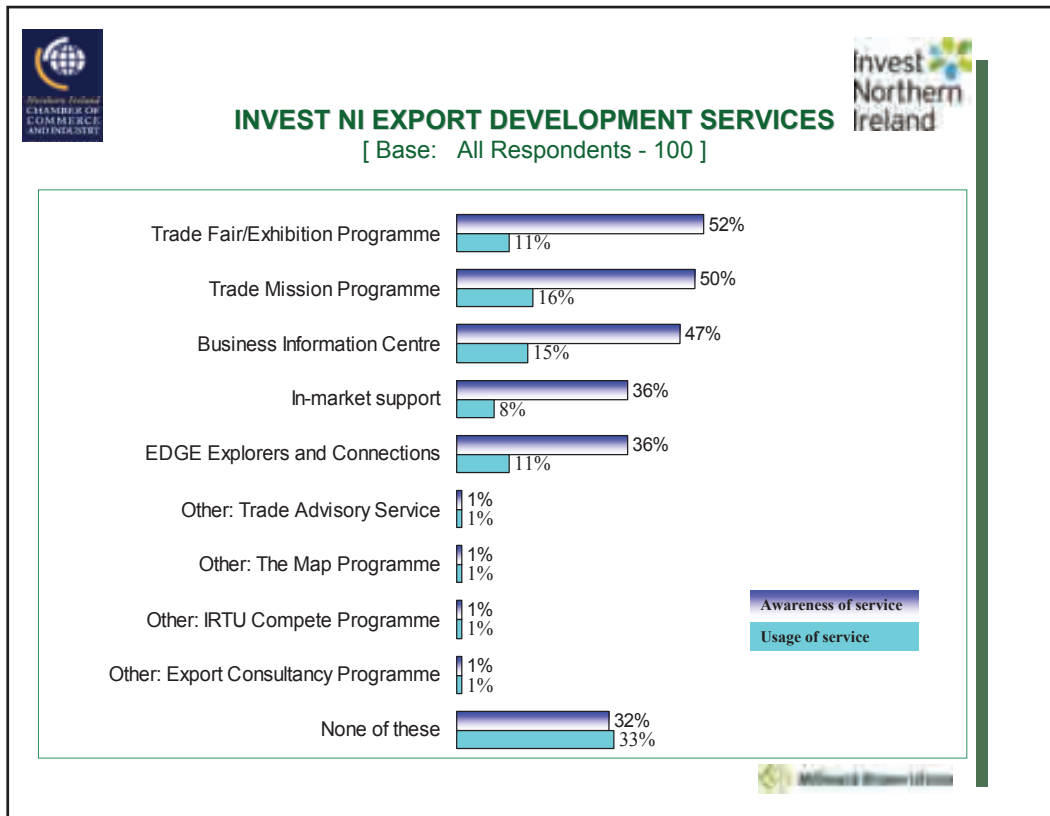


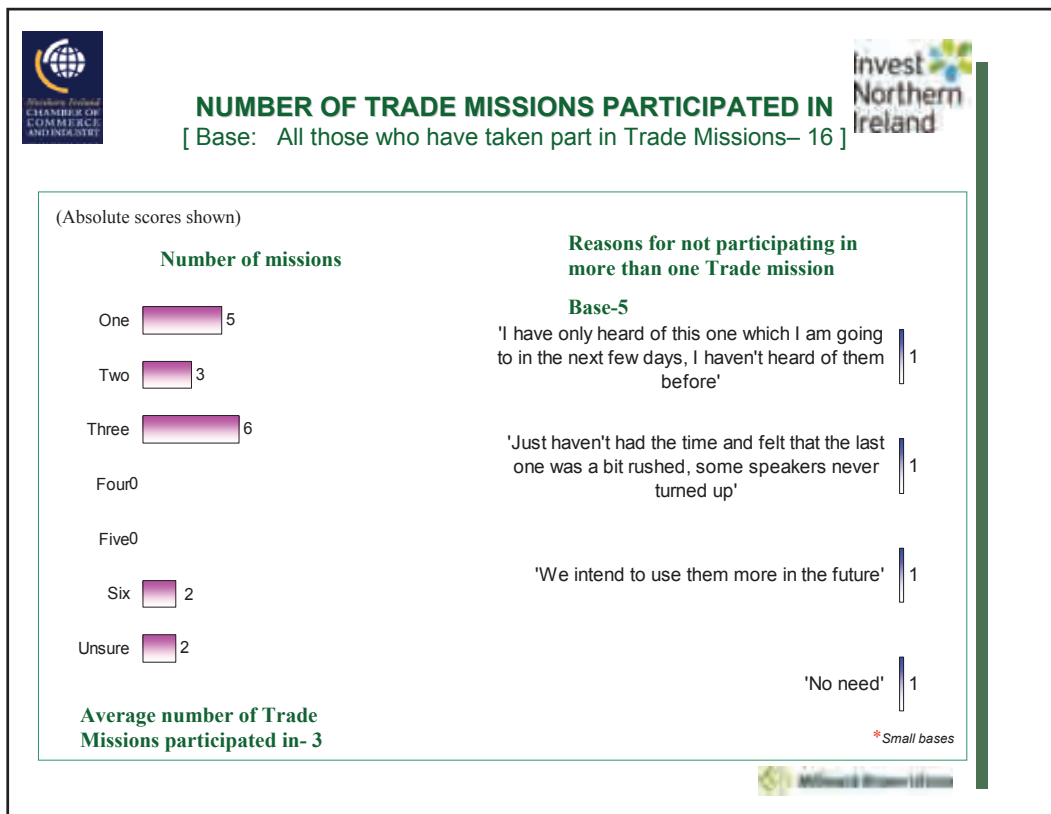


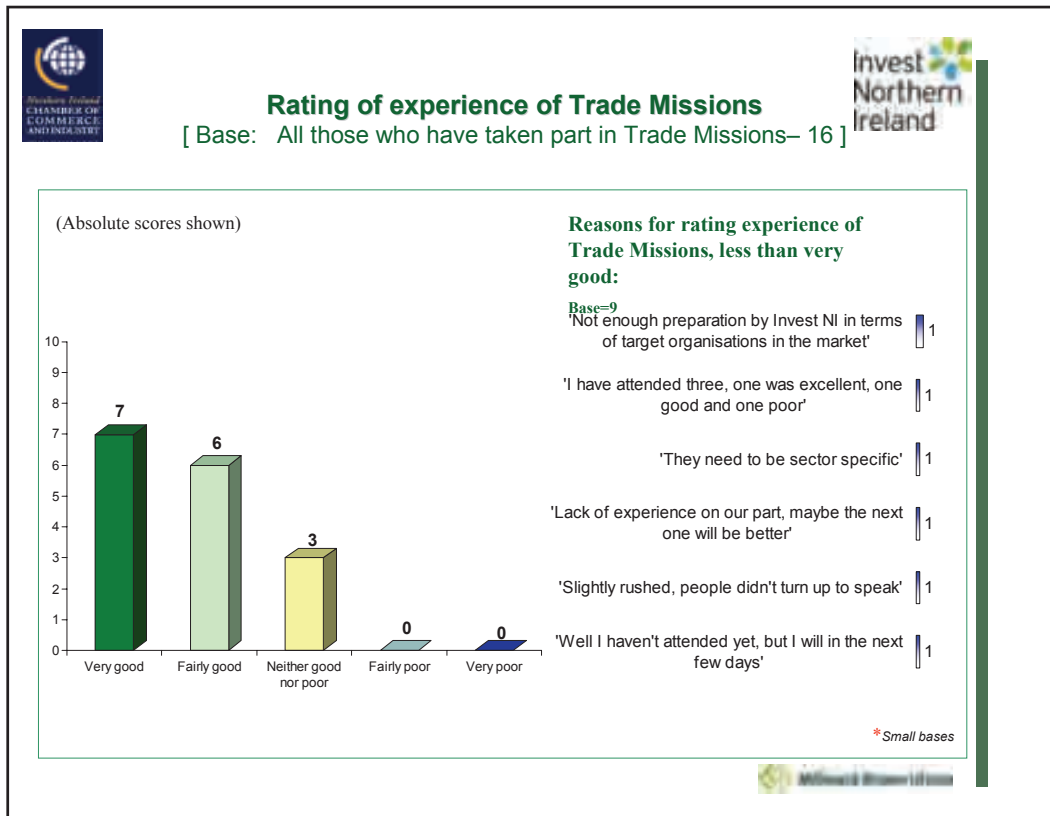


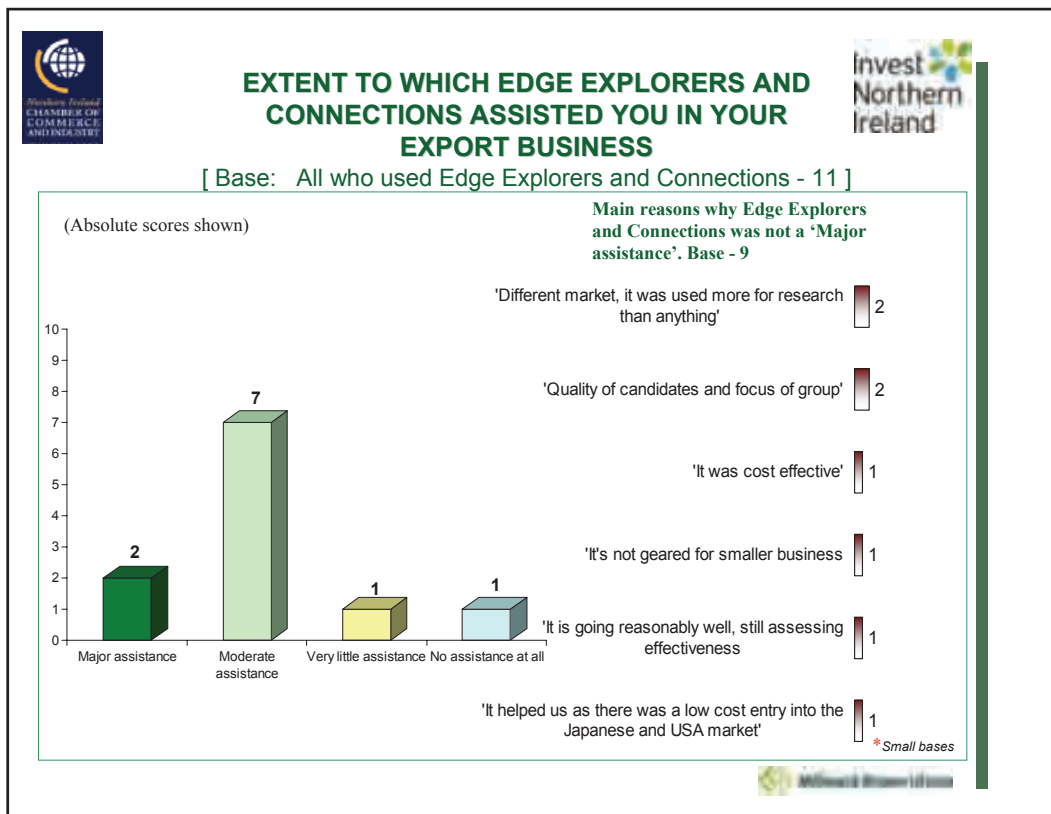
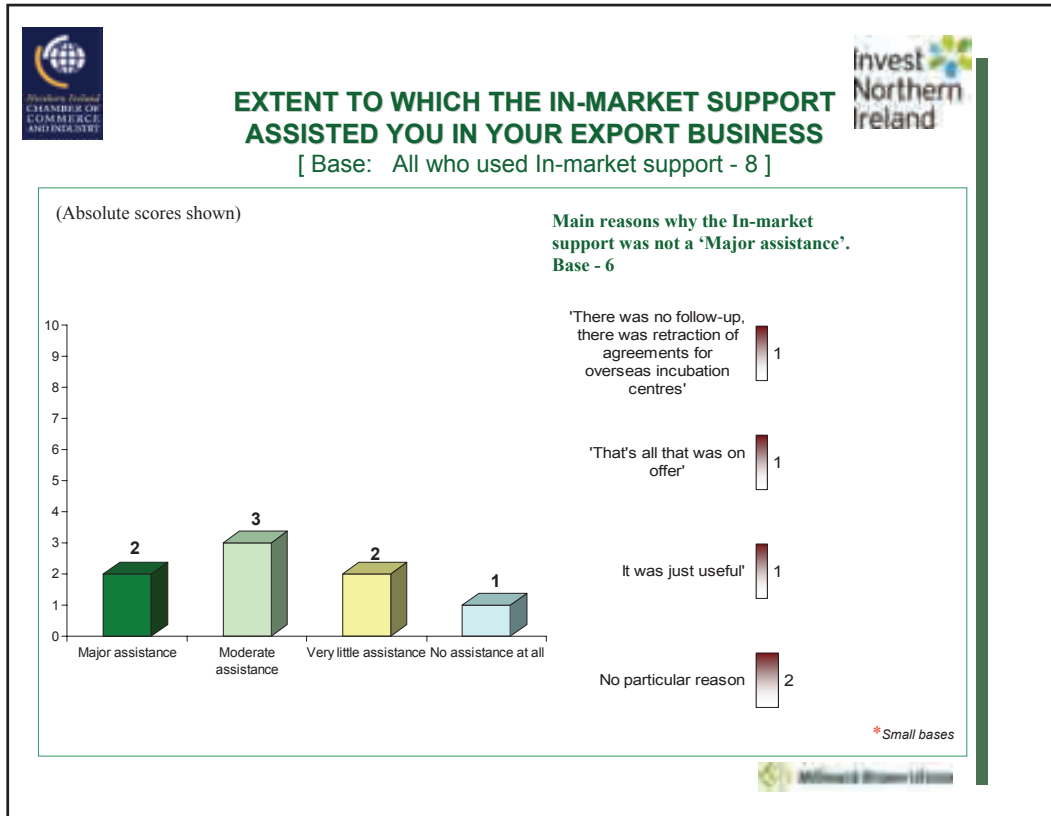


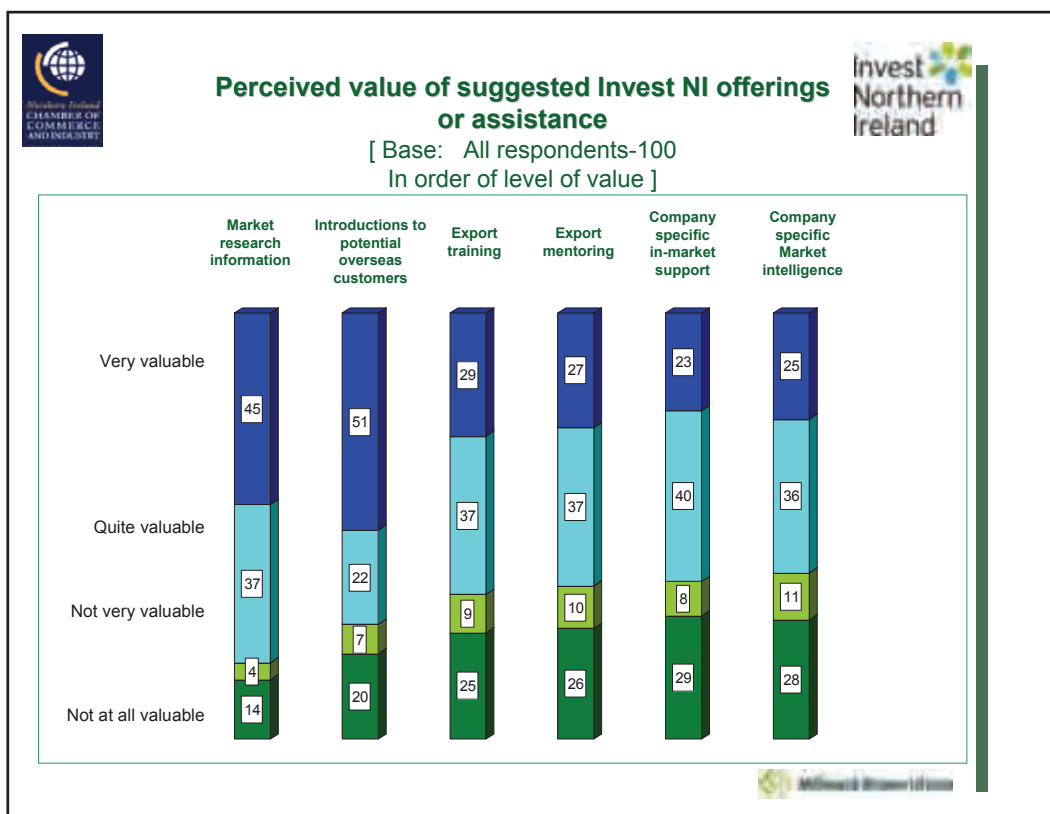
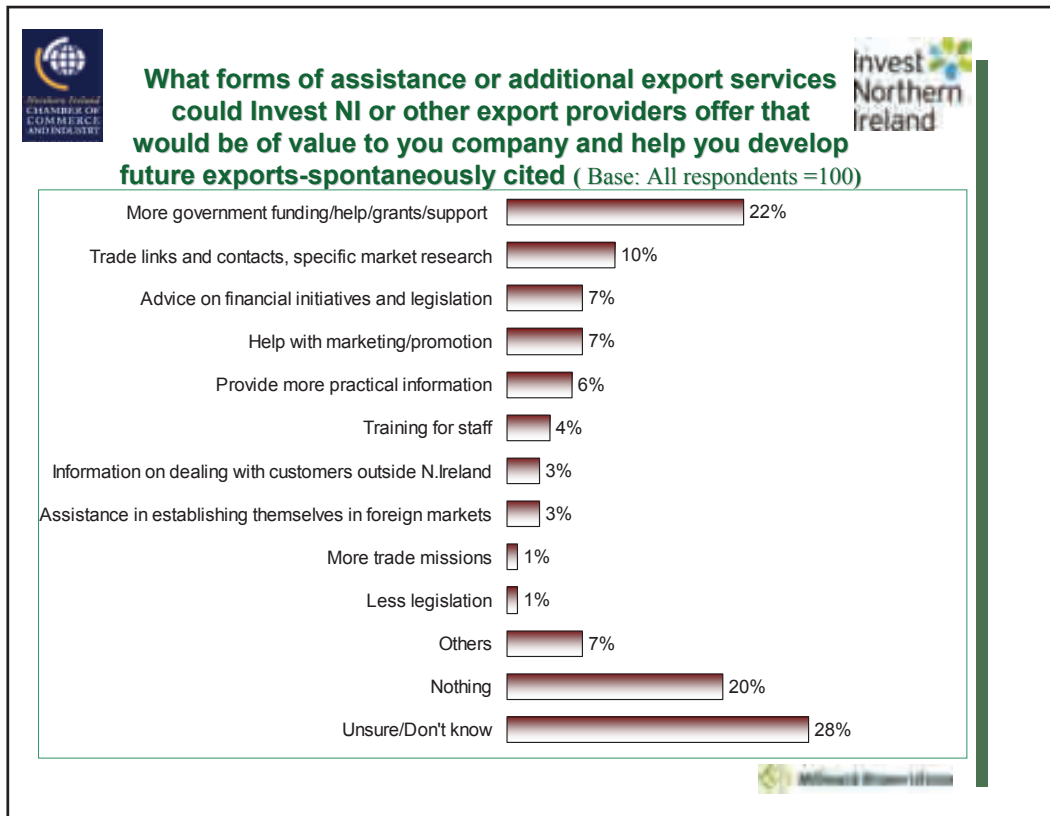


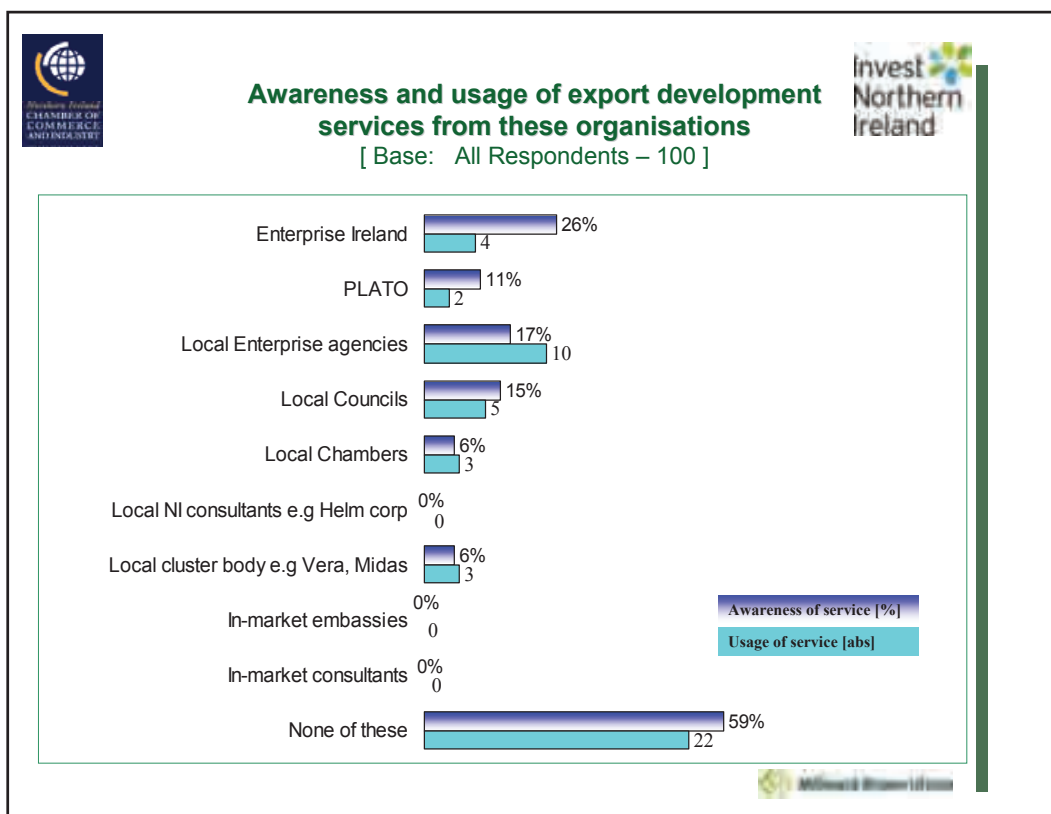
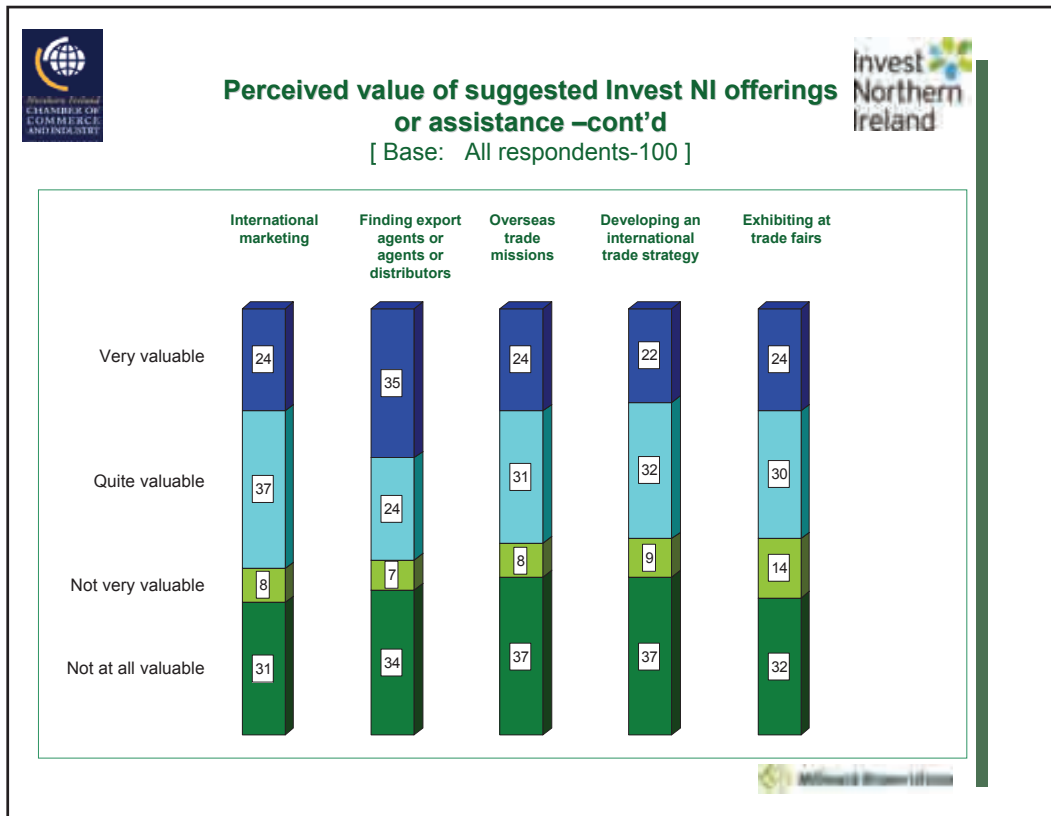


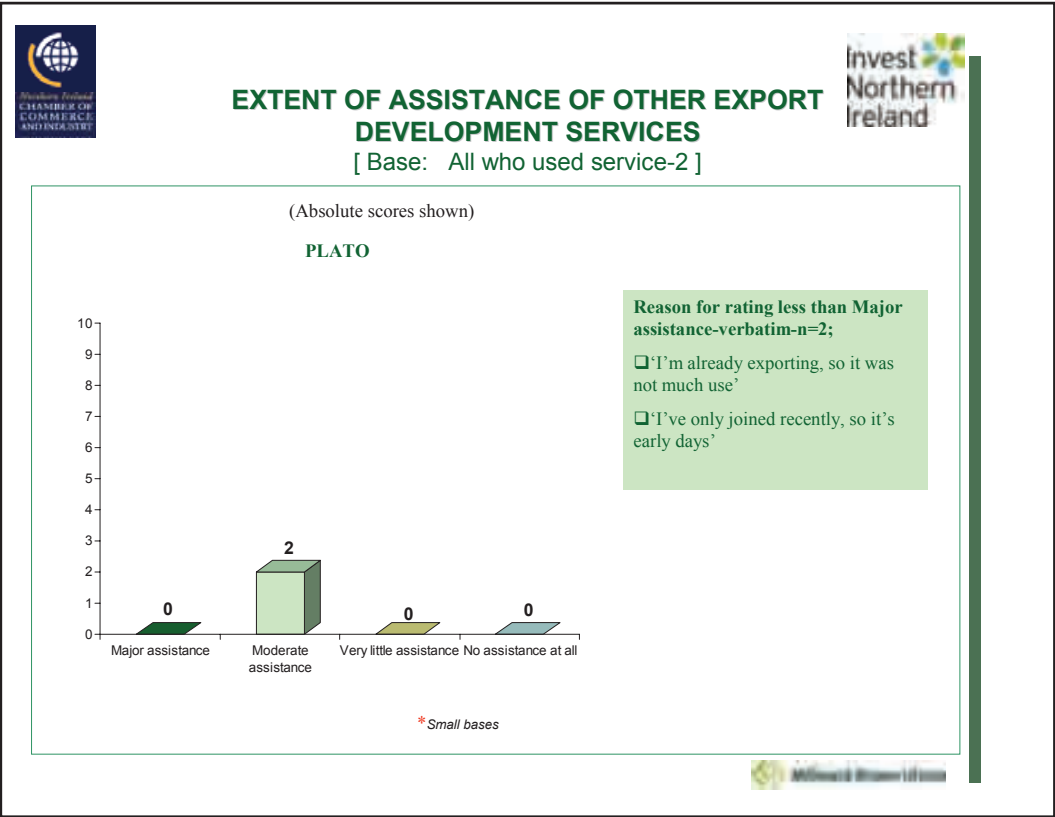


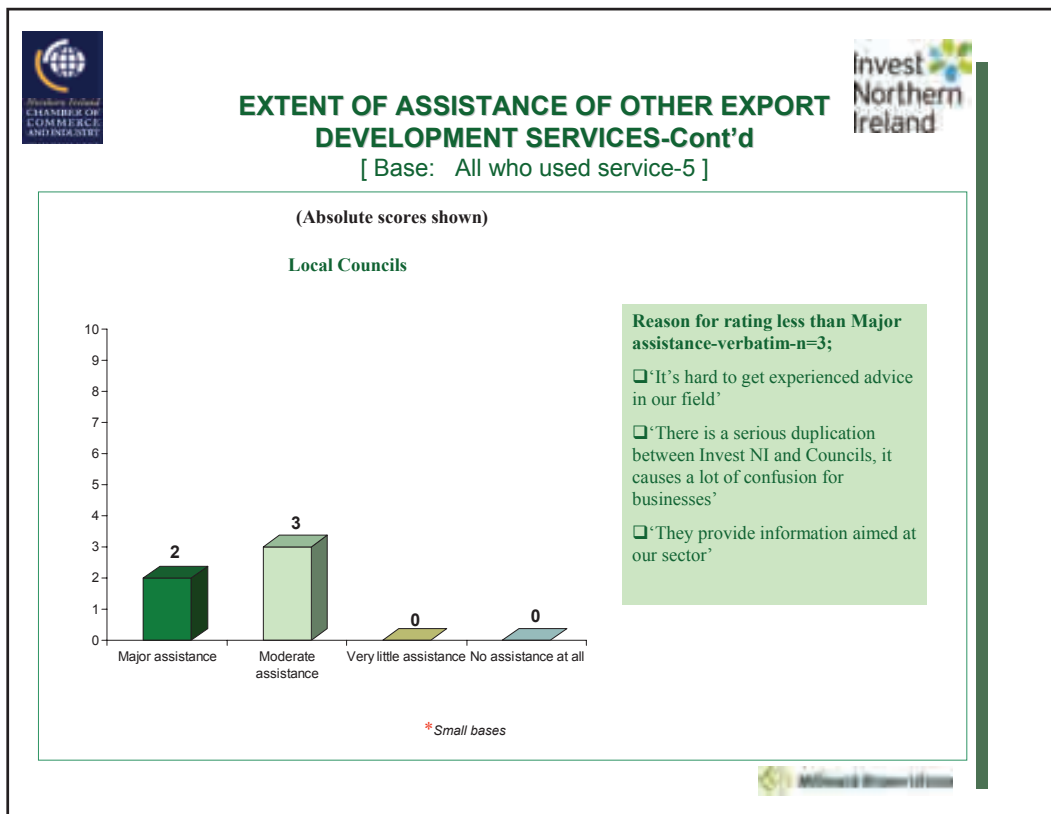
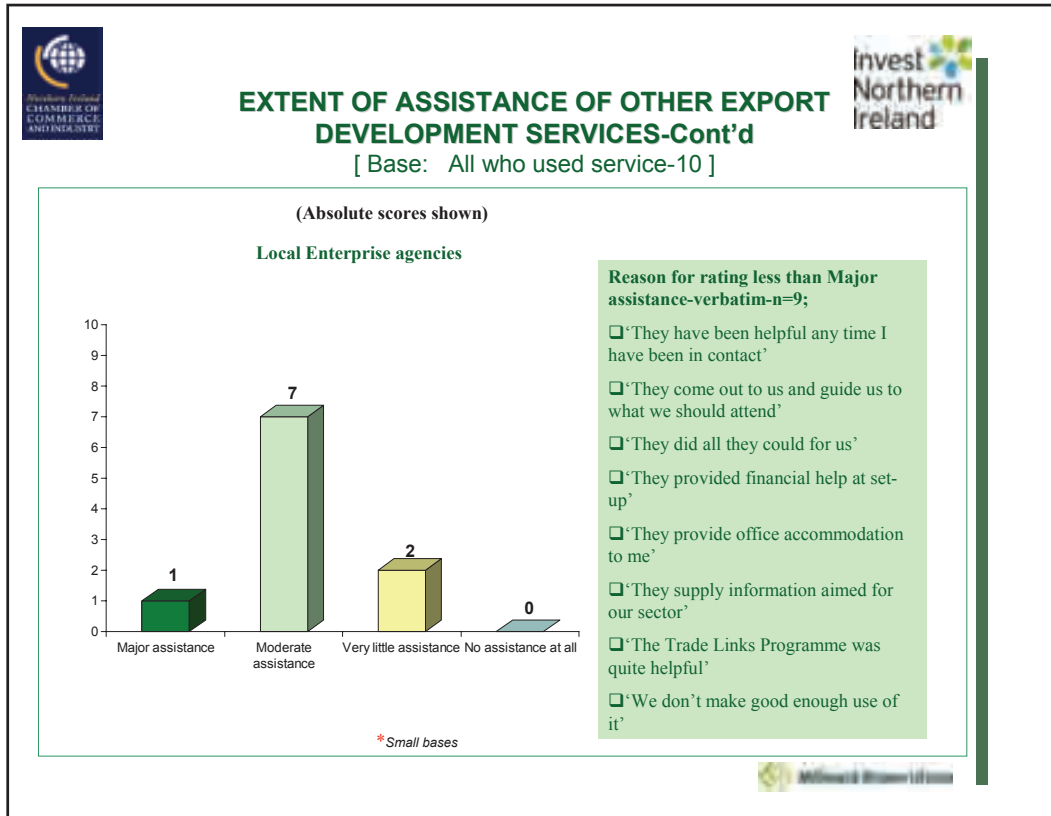


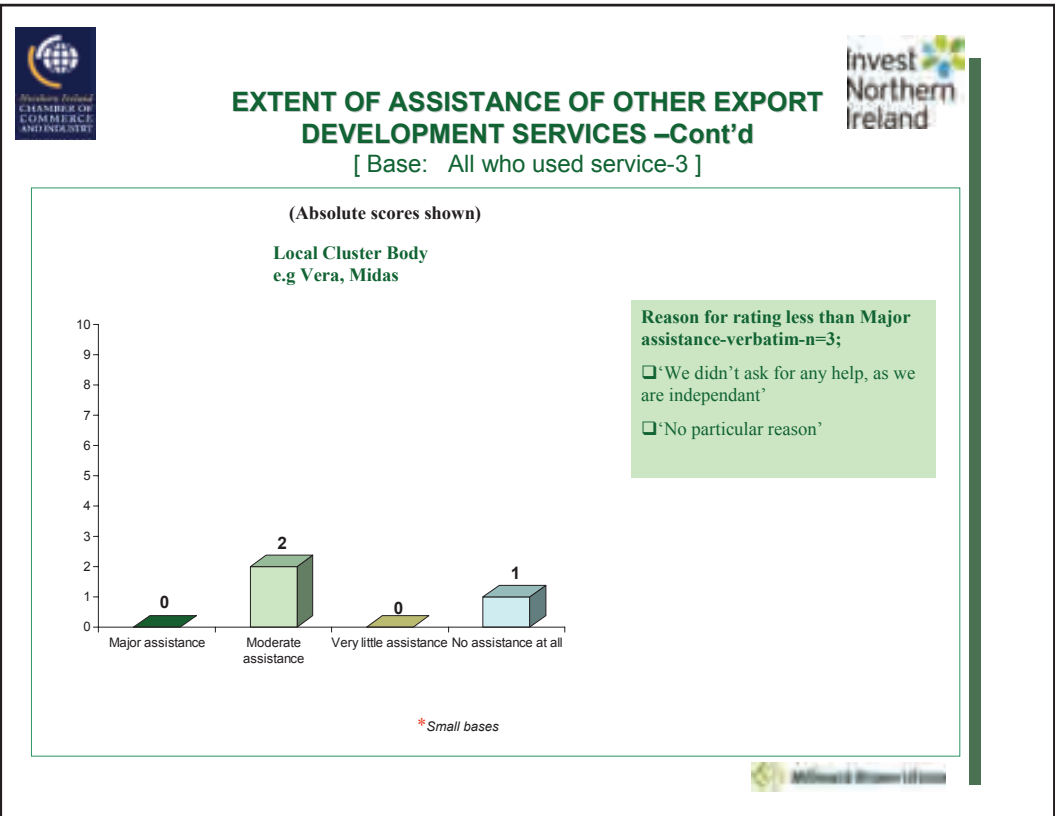
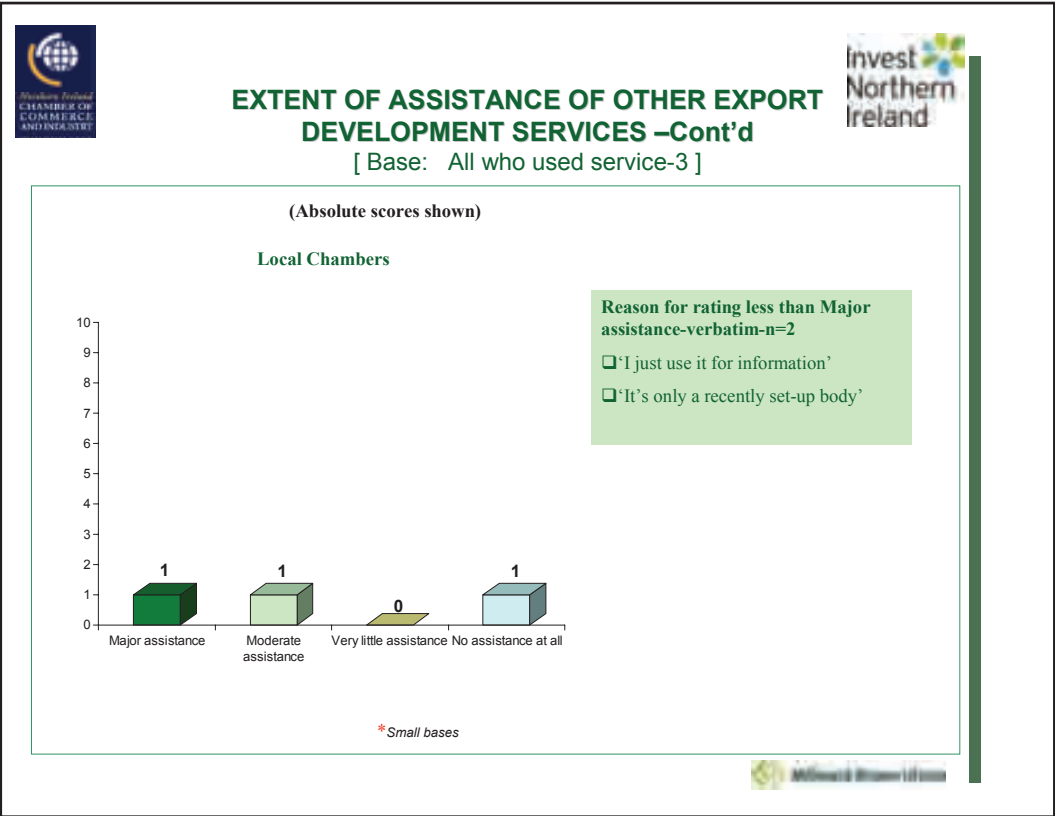

















Qualitative-Focus Groups



Background

- To add more insight to the quantitative telephone research, and also to act as a pre-test for the questionnaire for the telephone survey, two focus groups were held with representatives from businesses supplied by NICCI.
- One group was held in Newry and one in Belfast, in order to gain opinions of businesses within both the Belfast area, and also a non-Belfast area, in order to give a better geographical representation of business opinions within N.Ireland.
- Each group was made up of 4 or more key decision-makers of businesses within these areas. All companies involved in the groups, had some experience of exporting, although they were not selected in this way.





Key findings

Exporting:

Some key issues arose spontaneously in this general area:

- ❑ A key point within both groups was the need for introductions to useful and appropriate contacts in their target markets
- ❑ Market and country specific intelligence was another great need amongst these companies. Their feeling was that Invest NI supply a lot of general information, but a much more tailored approach is required, with detailed information, taking into account both type of company and target market. With this suggestion, the difficulties, cost and magnitude of taking this approach to assistance was recognised, but the general feeling was that resources could be moved away from what is currently produced, to go towards this more bespoke approach.

"The Enterprise Ireland approach to exporting is better, their Acumen programme is very successful. They identify a key contact who knows the sector within the target country "





Key findings cont'd

- ❑ Another suggestion which was seen across both groups, was to have one point of contact in the field (of the target country for export). This person would be able to provide very country specific information, regarding things such as legislation issues that may affect a company exporting to it, specific product quality/safety requirements, cultural information and in general, better information on that market in order to better prepare them for the process.
- ❑ Currency issues
- ❑ Delivery and transport issues
- ❑ Many problems are centred around the length of time involved in the grant application process with Invest NI.

"I don't expect Invest NI staff to know all about every country, but to instead have contacts in different countries that they could put me in touch with, who would be able to answer my questions "

"The grant system gives people a longer paper trail rather than results "





Key findings cont'd

Forms of assistance:

In general, there seems to be a lack of awareness, particularly by the smaller businesses, that these forms of assistance exist and of the bodies that could be used for help with exporting. Some of these had been used by the businesses and general feedback was given;

Trade Missions:


- ❑ Involve a lot of time and expense for the business
- ❑ There was a lack of awareness that these were offered, and also of what type of businesses they were open to.



Trade Fairs

- ❑ Only two of the companies in the groups had used these, but they had very positive views on the usefulness of these to their business, in terms of getting their product out there and that they bring all the right contacts together.

"Invest NI Trade missions are good, but I think they don't profile the contacts well enough"

"Small businesses are not advised of the benefits of Trade missions"





Key findings cont'd

Forms of assistance:

Embassies:

- ❑ The general feeling throughout both focus groups was a lack of awareness that these could be used as a source of help in this area.


Clusters:

- ❑ Some comments in the Belfast group, suggested that sometimes there could be drawbacks with these if any of their key competitors are in the group.

Edge Explorers Programme:

- ❑ The feeling coming through about this, was that graduates are not really what is needed as so much time is involved in training them up in the company, before they can start being of any use.

"A graduate is not the answer, too much time has to be spent training them"



Appendix 4

Written Evidence

UU Tech

UUTech Ltd submission to the Northern Ireland Government Committee sub-group on economic challenges

18 September 2006

The Economic Package/Peace Dividend

The Status Quo

In a world where competition has never been more intense, with the populous giants of China and India dominating global manufacturing competitiveness, while the newly-emerging economies of Eastern Europe appear willing to adopt aggressive fiscal policies to attract investment, Northern Ireland appears to be trapped in the contradictions of post-conflict relief but politically-deadlocked frustration.

“Peace dividend” has been described as the economic benefit of a decrease in defence spending. In the case of Northern Ireland the notion of a peace dividend is used to describe the inferred economic benefits deriving from the post-“Troubles” period. Peace dividends can be passive or evolutionary, as in the re-focus of the population on economic activity from conflict, or proactive and deliberate, as in the Marshall Plan, which the United States of America (US) developed after World War II to rebuild the economies of its European allies. The Marshall Plan operated for four years, and was equivalent to about £70 billion in 2006 terms.

In its post-conflict experience Northern Ireland’s social economy has clearly benefited from the post-conflict environment. The dismantling of the more obvious signs of conflict, including the removal of barriers in city centres and a pronounced recovery in the property sector, have induced a “feelgood” sentiment. Exponentially rising property values have produced widespread actual and perceived benefits, as homeowners have responded to the wealth effect of rising asset values by ratcheting up consumer spending.

Unemployment in Northern Ireland has stabilised at 4.5-5%, similar to the range experienced in the UK as a whole, and compared with levels of 17% and higher in the mid-1980s, while economic growth has also followed the trend in the UK. But the structural risks to Northern Ireland should not be overlooked.

The public sector accounts for 63% of the economy of Northern Ireland, compared with 43% for the UK as a whole. Subvention from the British government accounts for an estimated 20% of Northern Ireland’s economic output.

Northern Ireland's manufacturing sector has stagnated in recent years, despite growth in the capital-intensive chemical and engineering sectors. The serious decline in the garment and textile sector, and by the earlier decline of shipbuilding is demonstrated by the overwhelming influence of services. The services sector accounts for 70% of GDP, and almost 80% of employment.

Quo Vadis?

There is no serious participant in the Northern Ireland economy who has not examined the economy of the Republic of Ireland, and wondered what can be done to match the phenomenal success in the south of the island of Ireland.

The accompanying charts show some of the reasons for the disparity in investment between Northern Ireland and the Republic of Ireland. Twenty years or so ago, the Republic of Ireland was an economic basket-case, with national debt comparable to the failed economies of Latin America, which so exercised the International Monetary Fund, the World Bank and the international commercial banking sector.

Decisions taken prior to the 1980s, including a deliberate focus on education, and more specifically on increasing the proportion of science graduates, was complemented by the single most important economic decision in the history of Ireland – the deliberate use of tax policy as a means to attract Foreign Direct Investment (FDI).

Political sensibilities tend to obscure the potential benefits of a closer economic relationship between the North and the South of Ireland. But the facts are undeniable. Seven of the world's Top 10 technology companies have operations in the Republic of Ireland, and 9 of the Top 10 pharmaceutical businesses have operations there. There is no doubt whatsoever that the principal reason for these companies' decisions to locate substantial businesses in Ireland has been the fiscal policy.

It is true that a low tax rate in isolation would not be justification in itself for a major multinational to relocate a European head office or a significant manufacturing operation to a different country. Political stability; appropriately skilled labour force; good transport infrastructure - all of these criteria feed into major FDI decisions. But assuming everything else is equal, and there is ground to make the claim in a comparison between Northern Ireland and the Republic of Ireland, the decision will come down to one of: "What's on offer?" In the early stages of the initiative now known as the Celtic Tiger, attractive tax packages were offered, along with direct subsidies for job creation, many with milestones.

Conclusion

A combination of concessionary tax rates, together with subsidies targeted towards specific sectors – bio-tech, ICT, medical devices – could transform the Northern Ireland economy, and synchronise the economies of north and south of the island of Ireland. This will require a bold step by the politicians of Northern Ireland, but given the fact that Britain's subventions to Northern Ireland currently run at £5 billion a year, a Marshall Plan-type initiative, in the region of £20-30 billion, should be a workable proposition.

Whether that is described as a peace dividend, a stimulatory growth package or a pragmatic response to the intense competition from Northern Ireland's nearest geographic neighbour, there is no doubt that a "turbo-charge" is required to project the economy onto the next level.

Evidence indicates that corporate tax revenue increases rather than decreases as a result of a low-tax, or flat-tax policy, and the attendant benefits in terms of increased high-quality employment; relief for deprived communities and the social impact of returning migrants produce undoubted political advantages for the policy-makers across all parties. For the UK government, the prospect in the medium term is of a revenue-autonomous Northern Ireland, relieving the Exchequer of the subvention burden.

In summary, there are no losers from a deliberate strategy to stimulate the Northern Ireland economy by way of a bold and aggressive "Marshall Plan", especially if policy-makers are seen to be rising above their party-political differences in the interests of the community as a whole.

John Mulcahy

Director

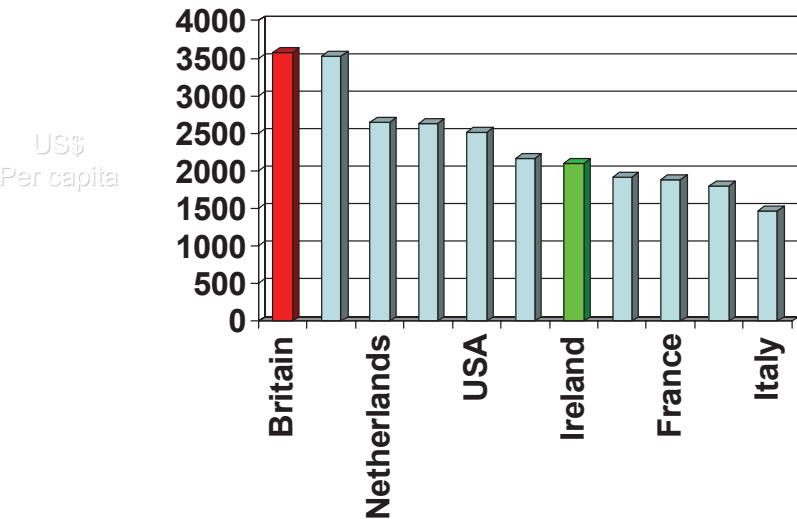
UUTech Ltd

18th September 2006

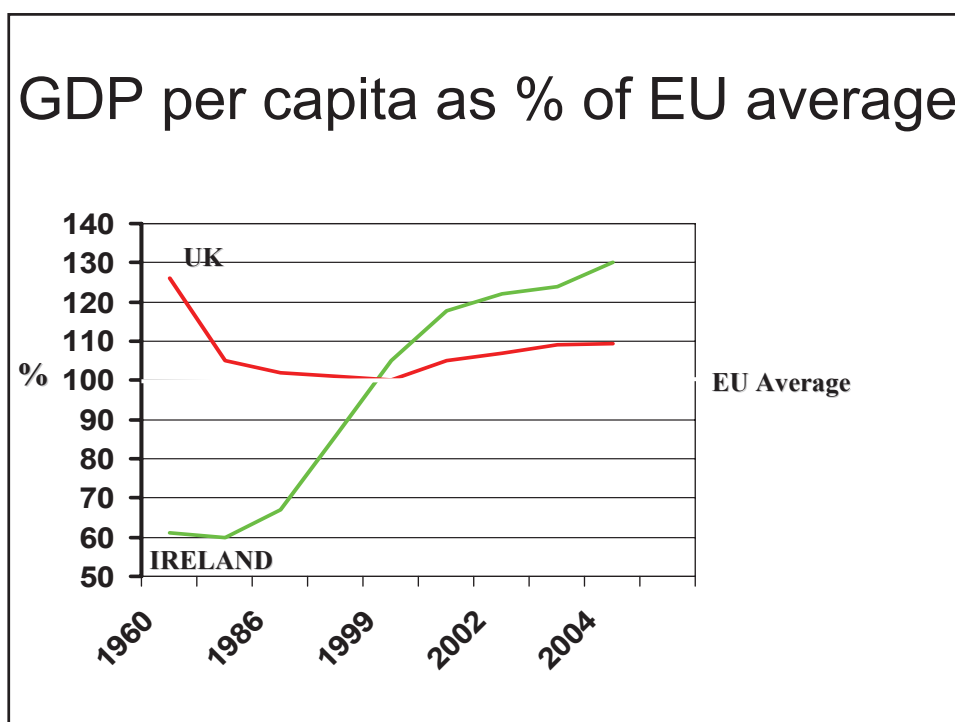
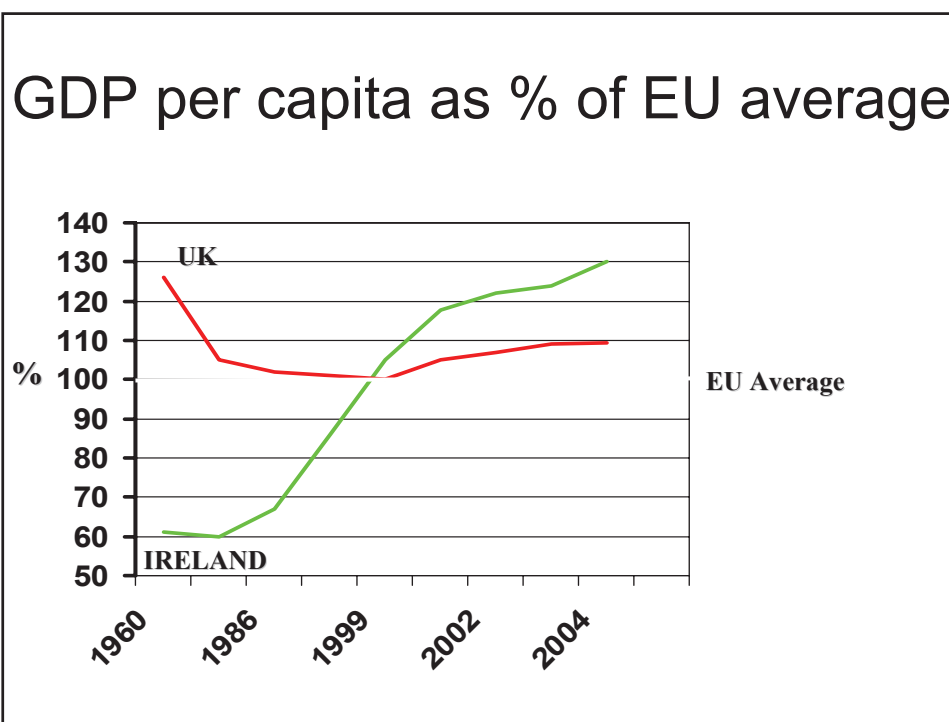
Northern Ireland – The Economic Package/Peace Dividend

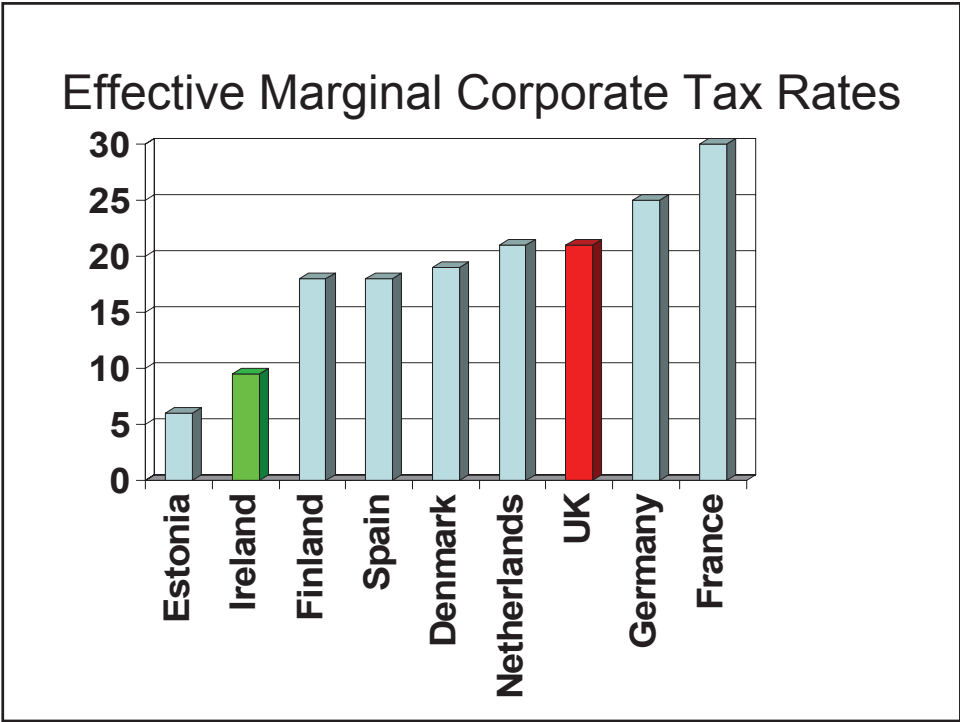
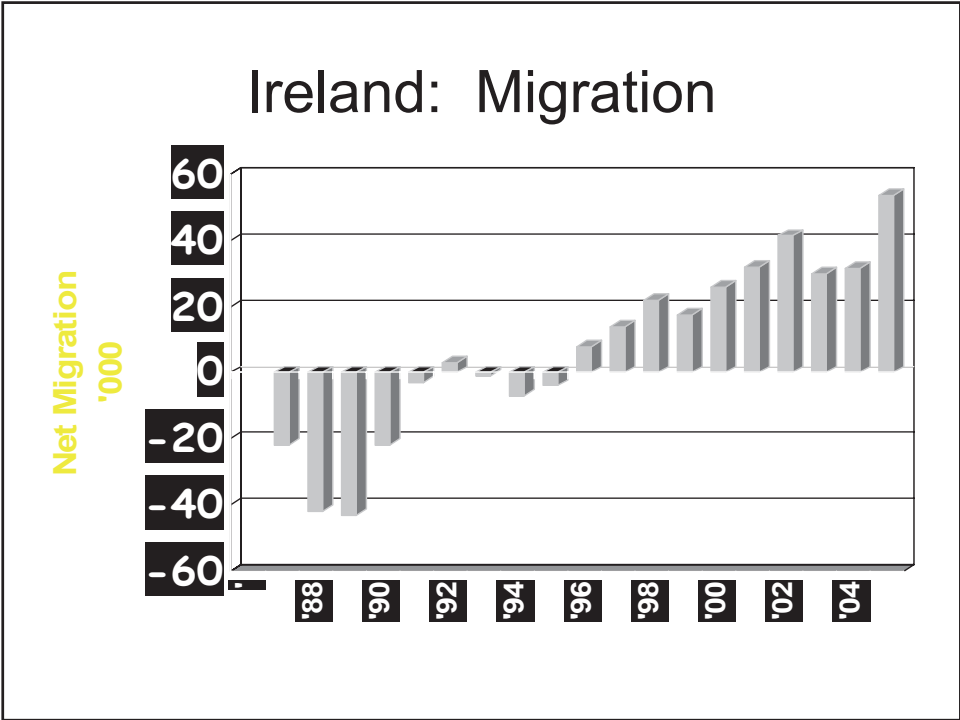
Some comparisons with the Republic of Ireland

GDP Ireland 1871

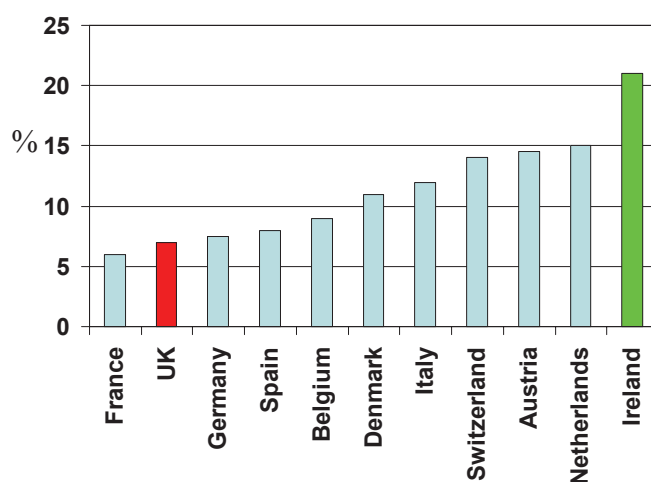


Source: Geary & Stark, Economic Journal, Economic Journal Oct 2002





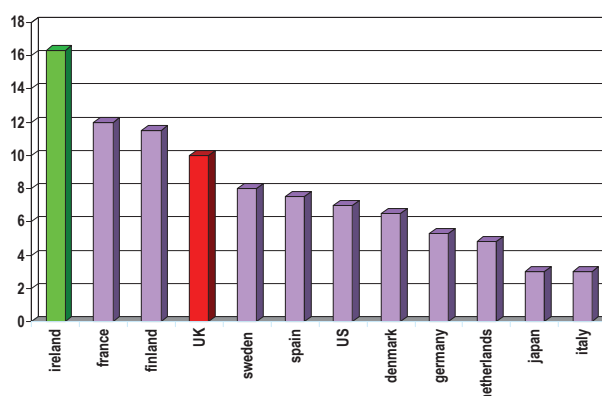
Return on US manufacturing Investment 1992-2001



Source: US Department of Commerce, 2001

Science & Engineering Graduates

Per 1000 Population Aged 20-34



Source: European Commission Science and Technology Report 2003

Appendix 4

Party Submissions

Alliance Party

PFG Subgroup: Economic Package

Alliance Party submission to Northern Ireland Assembly, Committee on the Preparation for Government, Subgroup on Economic Challenges

21 September 2006

1 Background

- 1.1.1 On 16 August 2006, the Alliance Party submitted a paper on “Economic Challenges Facing Northern Ireland”.
- 1.1.2 The paper highlighted what we see as the major impediments to the development of the Northern Ireland economy, which includes:
 - Costs of existing policies of segregation and separation
 - Over-reliance on the public sector
 - Economic inactivity
 - Over-dependency on low-growth, low-wage, and/or low-added value industries
 - Insufficient base of manufacturing, as well as hi-tech, knowledge-based industries
 - Inappropriate education system
 - Uncompetitive infrastructure
- 1.1.3 The paper also made suggestions as to how to promote the Northern Ireland economy:
 - Lower corporation tax
 - Tax-varying powers for Northern Ireland
 - Wealth creation
 - Peace dividend
- 1.1.4 The paper also highlighted areas that required significant investment:
 - Development of a green economy sustainable development)
 - Training and education

- Quality public transport and key strategic routes
 - Common civic space
 - Tackling social exclusion
- 1.1.5 It is clear that any additional spending as a result of a political agreement this autumn will have to be closely focused on priority areas. In particular, investment will have to be directed towards redressing the needs for capital investment in infrastructure, both human and physical.
- 1.1.6 This paper elaborates on specific aspects of the above suggestions, and others, in the form of an economic package for Northern Ireland.

2 Introduction

- 2.0.1 Alliance welcomes all those measures that will enable Northern Ireland to compete in a globally marketplace, where the private sector leads the local economy, providing high quality jobs, generating wealth and prosperity.
- 2.0.2 However, it will not be enough to focus only on the supply-side of economic factors, such as the tax regime and fiscal incentives for increased research and development. Ultimately, skilled workers willing to invest their own lives and livelihoods in Northern Ireland are required. To achieve this, government policy must address those factors that currently compel talented young people to leave Northern Ireland, as well as those factors that are preventing everyone else from acquiring necessary skills for a new Northern Ireland economy.
- 2.0.3 The Alliance Party vision is one of a high-growth, hi-tech, dynamic and sustainable Northern Ireland business economy, integrated into the European and global economy, which contributes to a socially just and prosperous society.
- 2.0.4 There are two crucial prerequisites for a favourable environment in which businesses can operate and succeed – peace and stability. The Good Friday Agreement holds out the prospect of putting these two factors in place. This makes it all the more imperative that the Northern Ireland Assembly can operate on a secure and long-term basis.

3 Alliance Proposals

3.1 Corporation Tax

- 3.1.1 In the matter of adjusting the Corporation Tax for Northern Ireland, the **Alliance Party supports the sub group's recommendation to await the result of DETI-commissioned researchers ERINI report, due in October.**

3.1.2 Alliance has expressed its concern whether HM Treasury would agree to vary corporation tax within the United Kingdom. While a reduction in corporation tax would undeniably benefit Northern Ireland business, HM Treasury would not want to see current firms registered in Great Britain to re-register in Northern Ireland to avail of this benefit.

3.1.3 A method of ensuring that a lower corporation tax would primarily benefit current or new Northern Ireland-based firms would have to be agreed.

3.1.4 Alliance notes the reduced corporation tax of 19% for those companies with profits under £300,000. It may be worth considering the effectiveness of this level, and whether adjusting this figure – whether percentage of tax or maximum threshold – would be even more effective. Different approaches will benefit the growth of local SMEs and the attraction of FDI.

3.2 R&D Tax Credits

3.2.1 **Alliance wants an increased provision of R&D tax credits and grants.** For example, we would increase funding for university research projects.

3.2.2 Alliance notes the relatively low take-up of R&D tax credits. This confirms our view that higher tax credits must be allied with grants and a reduction in bureaucracy.

3.2.3 Alliance is convinced that increased R&D will promote high value added businesses, the very type Northern Ireland needs to develop.

3.3 Grants

3.3.1 It is not surprising that businesses in Northern Ireland prefer grants to tax credits, as the money is made available up front. Although we are not opposed to grants per se, especially as part of an overall financial package, Alliance is concerned that foreign and indigenous business have become over-reliant on this particular measure.

3.3.2 Alliance would prefer the application of a tax credit/relief measure over grants.

3.4 Industrial rates relief

3.4.1 Northern Ireland manufacturing has been the cornerstone of our private sector for decades, and manufacturing firms continue to be world leaders.

3.4.2 The introduction of industrial rates in Northern Ireland threatens Northern Ireland companies' competitive edge, particularly because they are not paid anywhere else on the island of Ireland.

3.4.3 This matter is compounded by a higher corporation tax, compared to the Republic of Ireland.

3.4.4 These factors will force Northern Ireland manufacturers, current and potential, to choose whether to remain with higher costs and decreased profits, or to locate elsewhere.

- 3.4.5 **Alliance argues that there is a good case for capping industrial rates at some percentage.** This is even more significant if a lower corporation tax for Northern Ireland businesses cannot be secured, given that there are potential issues with European legislation.

3.5 Zoning (and social exclusion)

- 3.5.1 There are major economic weaknesses caused by the exclusion of many people from different social backgrounds and different geographical areas. Recent government initiatives have linked this to actions designed to deal with paramilitarism.
- 3.5.2 If all those who live in this society are to achieve their full potential, there is a need for concerted action to redress social disadvantage. This will include measures to assist those on long-term benefits (especially invalidity) into appropriate employment, as well as measures aimed at tackling disadvantage of children and young people, starting pre-school.
- 3.5.3 Specified geographical areas can benefit from targeted business zoning. However, **Alliance would concentrate on measures that directly benefit individuals in areas of social need.** As stated above, it is vital to develop the skills and abilities of the entire Northern Ireland workforce. Alliance calls for measures that will achieve this, and areas of social need are a priority.

3.6 Cross-border incentives

- 3.6.1 **Alliance supports joint grant/incentive packages to encourage both indigenous and foreign cross-border business growth.** Alliance supports the work of cross-border networks, e.g. InterTrade Ireland.
- 3.6.2 Alliance also supports measures for business development on an East-West basis, particularly in areas of economic and academic clustering.

3.7 Loans and Public Private Partnerships (PPPs)

- 3.7.1 The Alliance Party did not belong to the previous Northern Ireland Executive that agreed a massive spending programme under the Reinvestment and Reform Initiative (RRI). Alliance expresses its serious concerns about the financing of such projects through high levels of borrowing and reliance on Public Private Partnerships.
- 3.7.2 Alliance is not ideologically opposed to PPPs, but will consider its application upon the merit of the project. Consideration must also be given to the proportion of public expenditure committed to PPP in certain sectors.
- 3.7.3 While local businesses may benefit from PPP projects, **Alliance shares the view that passing public services work to the private sector will not fundamentally change the nature of Northern Ireland's economy.** Export-based growth and the creation of wealth is what is required.

- 3.7.4 Furthermore, Alliance has serious objections to the financing of RRI projects through unfair domestic rating and the introduction of new water charges. The large increases will reduce the disposable income of thousands of households, reducing economic activity.

3.8 Cost of segregation

- 3.8.1 Alliance has identified that approximately £1 billion of public expenditure in Northern Ireland is wasted in dealing with the direct and indirect costs of managing a divided society, which has been elaborated upon in our previous submission to this sub group committee. We note that research on this topic, commissioned by the NIO, is currently underway
- 3.8.2 **Capital investment is required to cut back theses costs of segregation.** For example, a modest capital programme might be required to enable the development of transformed integrated or shared schools where both controlled and maintained schools in an area are under threat because of falling rolls.
- 3.8.3 Similarly, the creation of shared civic space will enable wider access to a variety of jobs, especially in currently segregated areas, and benefit business by providing a wider pool of potential employees.
- 3.8.4 The development of appropriate financial expenditure and savings methods should be done in conjunction with action plans for the Government's policy, *A Shared Future*.

3.9 Public Expenditure

- 3.9.1 The matter is not one of reducing public services, per se, but of transforming Northern Ireland's economy to private sector growth. Instead of being driven by civil service strategies, a more radical and challenging approach needs to come from local political leadership and social partnership.
- 3.9.2 Indeed, it is worth noting that social partnership was an important factor in the transformation of the economy in the Republic of Ireland.
- 3.9.3 On the proviso of local political leadership and social partnership, **Government will need to provide sufficient resources to ensure that a strategy for private sector growth gets off the ground successfully.**

3.10 Tax-varying powers

- 3.10.1 Tax-varying powers can be used to rate taxation according to profitability, employee size, and/or growth potential. The use of tax breaks could be used to attract investment to designated disadvantaged locations. The implications of the recent ECJ ruling on the 'Azores' case need detailed study.
- 3.10.2 This power would also enable the abolition of the regional rate, to be replaced with a local income tax, which could be used as a fair method to pay for public services.

3.11 Transport

- 3.11.1 Investment in roads, such as the current work on the Westlink, has been largely driven by business considerations. However, there are ongoing problems associated by the high level of car commuting into Belfast, in particular. At the same time, key transport corridors in rural areas are neglected, while there has been major investment in transportation within the Republic.
- 3.11.2 Such investment as has been made in public transport – the Enterprise some years ago and Metro buses last year – have shown that there are considerable potential benefits in attracting passengers and reducing congestion. **Further investment in the railway infrastructure and rolling stock, in buses and in rural main roads, is required**, to promote better opportunities for business to attract FDI and ease commuting times.

3.12 Tourism

- 3.12.1 There needs to be increased funding for tourism product marketing activities, to revise the overall image and profile of Northern Ireland overseas. Alliance believes that a public-private sector partnership is central to the success of tourism. We support efforts to involve the private sector more in the growth of the tourism industry.
- 3.12.2 **Government could assist tourism business by awarding it rates relief.**

3.13 Child care

- 3.13.1 Alliance notes that adequate child care is a prerequisite for the greater participation of women in the economy. This contributed to the success in the growth of the Republic of Ireland's economy.
- 3.13.2 **Government should provide adequate child care support.**

3.14 Education policies

- 3.14.1 The needs of business can be compatible with educational provision. For example, collaborative clusters of schools, businesses and colleges should be established. Funding for courses in Higher Education and Further Education should take into consideration economic priorities.
- 3.14.2 **Government policy should provide incentives for such collaborative educational provision.**

3.15 Sustainable development

- 3.15.1 Recent grants on areas such as alternative energy have encouraged farmers and other businesses, as well as householders, to consider actions in this area. However, there remains a significant problem related to the costs of energy in Northern Ireland related to other regions. Additional assistance could ensure further progress to cut both energy costs and carbon emissions.

- 3.15.2 Alliance is concerned with the low level of approved applications for energy efficiency grants. It is disgraceful that the Government has not made the most of the public's obvious enthusiasm for this scheme. **The bureaucratic hurdles to installing green energy systems at home are prohibitive and need to be removed.**
- 3.15.3 Alliance recognises that sustainable development is an area of potential significant growth for private business in Northern Ireland, from R&D to the manufacture of energy efficiency products and their installation and maintenance.

4 Summary

- 4.0.1 In summary, an economic package for Northern Ireland should include the following:
- Consideration for a lower Corporation Tax, for all or limited criteria of company
 - Increased provision of R&D tax credits and grants
 - Capping of industrial rates
 - Measures to directly benefit individuals in areas of social need
 - Grant/incentive packages for cross-border business growth
 - Capital investment to cut back costs of segregation
 - Resources to jump start private sector growth strategy
 - Further investment in public transport infrastructure
 - Awarding tourism business rates relief
 - Provide adequate child care support
 - Provide incentives for school, business and college collaboration
 - Remove bureaucratic hurdles to realise green energy growth

Democratic Unionist Party

Democratic Unionist Party submission to PFG Sub Group on the Economic Challenges Facing Northern Ireland

An Economic Package

The Democratic Unionist Party strongly supports a wide-ranging financial package for Northern Ireland. What we ask for is not special treatment, but rather a recognition by Government of the hardship our economy endured as a result of three and a half decades of terrorist campaigns that often focused its attention on the business community, targeting businessmen and women, their businesses, the country's essential economic infrastructure and our economic relationship with the outside world.

The effects of terrorism in Northern Ireland are still being felt today; low investment, under-developed tourist potential, a skills deficit, educational underachievement, poor community capacity.

Northern Ireland faces challenges which are unique within the United Kingdom for a number of reasons. In particular no other part of the UK has a land border with another EU member state and all the implications which this brings. No other part of the UK has suffered in the way in which Northern Ireland has over the last 30 years and faces such huge obstacles to attract investment and retain indigenous firms. We are also on the periphery of the UK and Europe and face additional costs as a result.

1. Infrastructure

The estimated £7 billion infrastructure gap was in part created by the diversion of public funds to the security budget. As a result, our infrastructure lags behind that of our economic competitors. An infrastructure fund is required to overcome this distinct disadvantage, targeted at:

- roads
- rail
- air
- ports
- water/sewerage
- telecommunications

This fund, to which others could contribute, would pay for projects above and beyond those which are in progress or in the pipeline.

2. Fiscal Measures

Given our unique situation as the only region of the United Kingdom to share a land border with another European Union member state, we believe that a compelling argument can be made for exceptions to the normal approach taken by the Treasury vis-à-vis business taxation. This would most importantly relate to corporation tax – for which we favour a headline rate of 10% - but also affects fuel duty and the aggregates tax.

As our businesses seek to develop out of the difficulties of the last 35 years, it is vital that they are not stopped in their tracks by prohibitive business costs. There is considerable evidence that doing business in NI is significantly more expensive than elsewhere. Northern Ireland's businesses do not need additional financial burdens which could cost thousands of jobs like industrial rates and, as such, we support the proposal to cap industrial rates at 25%. We also believe that Government should address the wildly disproportionate insurance and energy costs faced by Ulster business.

3. Border Fund for Isolated Unionist Communities

The Provisional IRA's terror campaign often hit unionist communities along the border the hardest and with ongoing security normalisation, they feel isolated and neglected. We support a fund for the rebuilding of infrastructure, capacity and confidence in those communities.

4. Deprived Unionist Areas

Whilst welcoming Government's initial attempts to address this issue and their acknowledgement that a problem – which nationalists and republicans deny - actually exists, more sustained help is required. Targeted investment in unionist areas which have suffered very severe deprivation which in turn has led to wider social and economic problems such as poor housing, educational underachievement and a lack of skills, can assist in alleviating those difficulties.

5. Rural Poverty

Farmers and farm works are part of the backbone of the Northern Ireland economy and a programme should be devised to help them end their particular problems.

6. Amend Reinvestment and Reform Initiative

While in principle the idea of the RRI was a good one, the terms on which it has been offered are punitive for the people of Northern Ireland. It is important that the terms of the RRI are renegotiated in a manner which encourages reform rather than simply requiring higher taxes.

7. Establish Enterprise Zones

Enterprise Zones with favourable treatment and excellent infrastructure would permit such areas to compete on a realistic basis with other areas outside Northern Ireland.

8. Changes to Rating

The changes to the Rating system should be reviewed and alternative approaches considered which could either modify the proposals or significantly alter them due to their inherent unfairness and punitive nature towards certain parts of the community.

9. Water Charges

This issue must be revisited with all of the options being reviewed. The DUP has previously set out a series of proposals in this area. In relation to the funding of Water Service they include provision to pay for Water out of the Regional Rate as a hypothecated charge or reducing the Regional and or District Rate by the amount of any water charge. We also set out proposals to allow metering on a voluntary basis and setting the fixed charge at an appropriate level. Efficiencies within Water Service could help pay for the necessary capital investment in water infrastructure.

10. Asset Disposal and RPA Savings

Northern Ireland must be entitled to retain all the proceeds for the sale of significant assets and any savings from the RPA must be able to reduce the Rate burden in Northern Ireland.

11. Allow Flexibility for Barnett Consequentials and GGF

It is important that a Northern Ireland administration retains the capacity to use 'Barnett consequentials' in an unrestricted manner according to our own priorities. No limitation should be placed on a Northern Ireland Executive on using 'Barnett consequentials' to contribute to the General Grant Factor and reduce the District rates.

Sinn Féin

Economic Overview – What kind of economy do we want?

Sinn Féin wants to build a strong all-Ireland economy where everyone can have a dignified and productive working life, a fair income and a good quality of life.

We want to see the positive redistribution of resources to eradicate poverty and social exclusion by investing in the health service, education, housing, infrastructure, pensions and child welfare and other social assistance.

We welcome the growing body of evidence that presents a strong challenge to many mainstream market economic orthodoxies, including ‘trickle down’ theory, the idea that the market mechanism is the best tool for allocation of resources, the absolute correlation of low taxation and low wages with competitiveness, the belief that inward investment is a panacea for economic problems, and the oversimplified equation of economic growth with well-being and social progress.

- Gross Domestic Product (GDP) and Gross National Product (GNP) alone are not reliable indicators of social and economic advancement. For a truer picture of how we’re doing, we need to use other tools such as the UN Development Programme’s Human Development Index (HDI), the Index of Sustainable Economic Welfare (ISEW) and the Fordham Index of Social Health (FISH).¹
- Ensuring a fairer distribution of wealth and income is a far more effective way of eliminating poverty than the present over-dependence on economic growth and the market.
- A stable, strong economy and society requires balance between growth and socio-economic rights.
- Equality pays for itself in the long-term but it costs up front. The only way we can pay is to ensure a healthy economy that creates jobs and nets tax back to the Exchequer.

¹ GDP represents the total value of goods and services produced by a state. GNP represents the value of all goods and services produced by a state, plus the value of the goods and services imported, less the goods and services exported. The UNDP Human Development Index (HDI) measures a country’s average achievements in three basic aspects of human development: longevity (measured by life expectancy at birth), knowledge (measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio), and a decent standard of living. The Index of Sustainable Economic Welfare (ISEW) is an economic indicator designed to replace GDP. Rather than adding together all expenditure as in GDP, consumer expenditure is balanced by factors such as income distribution and costs associated with pollution. The Fordham Index of Social Health was developed by the Fordham Institute for Innovation in Social Policy in 1978 and is a composite of 16 indicators: infant mortality, child abuse, child poverty, youth suicide, teenage drug use, high school dropouts, teenage births, unemployment, wages, healthcare coverage, poverty amongst those aged over 65, life expectancy aged 65, violent crime, alcohol-related traffic fatalities, affordable housing and inequality.

The Role of Government

Sinn Féin believes that Government should have a central role in managing the economy.

Government interventions are not only needed to deliver equality and social justice but can also enhance the business environment, lead to job creation and contribute to sustainable economic growth. We need Government action to promote progressive entrepreneurship, R&D, infrastructural development, work-life balance, protection of workers' rights and the promotion of environmental objectives, the provision of public services that enhance quality of life for the population and the business environment, support the goal of achieving balanced regional development, and to facilitate and enable the achievement by every worker of their full potential.

Sinn Féin supports the primary role of the state as a regulator, a collector and distributor of revenue, a provider of essential services such as healthcare, education, housing, childcare, social services, waste management and recycling, water and sewerage, transport, energy, and communications, and as a major employer in its own right.

The Role of the Public Sector

The public sector also has a positive role to play in the economy. It provides equitable access to essential public services necessary for a good quality of life and the conduct of business, stable high quality employment, and can also provide an alternative (to taxation) source of income for the state through publicly-owned enterprises.

Sinn Féin does not accept the neo-liberal economic view that expenditure on public services is a burden on the productive sectors of the economy, and hence the role of the state should be minimised and those services themselves provided as far as possible by the private sector. This ignores the fact that public services have a positive effect on productivity of the whole economy, especially when public capital investment in infrastructure is taken into account.

Quality public services support economic development. We support provision of essential public services by the public sector – which is guided by the principles of equality of provision rather than by profit, and therefore provides more equitable access. We oppose privatisation of such services. Privatisation policies have undermined the state's ability to provide basic services.

We also believe that there is a need to end waste and duplication in the public service by developing and promoting all-Ireland strategies and service delivery thereby achieving considerable economies of scale and reducing the overall cost.

The Role of Entrepreneurs

Not all employment can or should be created by the state. The creation of new businesses is therefore essential. Entrepreneurship plays a key role in a successful, equitable economy as it creates employment and generates tax revenue to pay for public services and social programmes that benefit all.

Entrepreneurship and innovation are necessary for positive adaptation to changes in the economy driven by changing consumer demand, technological development and forces external to the economy. They are needed for a strong economy.

Ending the Economic Inefficiency of Partition

A cornerstone of Sinn Féin economic policy is the ending of the partitioned economy. First and foremost, the absence of economic sovereignty is the biggest single obstacle facing the economy in the 6 Counties. Fiscal policy, taxation and public expenditure, and the regulatory framework, are all set in London. The 6 Counties is consequently excluded from the economic advances of the 26 Counties and lumped in with “the rest of the UK” – where it tops the list on practically every deprivation indicator, yet no special provision is made for it as a society just emerging from conflict with all the attendant social and economic disadvantages.

However, the 6 County economy is also unsustainable by itself and cannot exist in isolation from the rest of the island. Its economy has consequently become distorted and abnormally dependent on subsidy and the public sector for employment.

Partition is generally wasteful and inefficient for the Irish economy as a whole. It involves duplication of government and public service structures. It imposes an unnecessary administrative burden on those wishing to do business in both jurisdictions, and creates barriers to economies of scale. It means we are competing with ourselves for economic investment, as well as with the rest of the world. An all-Ireland approach would eliminate this counterproductive anomaly regarding inward investment, eradicate the waste of duplication in the public sector, open up a wider market to business on the island, and generally enhance Irish competitiveness.

The potential of an all-Ireland economy has been recognised by the business community for years. In fact, a nascent all-Ireland economy exists today, and it is becoming more interdependent and integrated every year.

The Irish Government has also acknowledged the necessity for increased cooperation on an all-Ireland basis in relation to the economy. As a result of commitments in the Good Friday Agreement, the All-Ireland Ministerial Council has agreed a ‘Common Chapter’ that links the two separate economic development strategies for the 6 and 26 Counties. The Common Chapter commits both governments to advance all-Ireland economic development through joint planning in nine areas: energy, communications, electronic commerce, human resource development, agriculture and rural development, tourism, transport, environment, education, health and EU funding (INTERREG II and the Peace Programmes).

Pending national reunification, Sinn Féin is committed to strengthening the all-Ireland economy, overcoming obstacles to mobility, harmonising fiscal and legislative business environments, and adopting and implementing proactive all-Ireland economic development strategies.

Sinn Féin believe Irish and British Governments must, at a minimum, fulfil their all-Ireland economic commitments in the Good Friday Agreement and in the Common Chapter so as to aid the process of economic growth across the whole of Ireland.

The Goal of Full Employment

Irish workers deserve high quality jobs. Every person in Ireland deserves to be equally included in a strong economy. Full employment for economic equality should be a central

objective of economic policy. Therefore resources should be geared towards creating stable, fulfilling, well-paid employment. This requires a two-fold emphasis: on the creation of better jobs, and on preparing workers to take on those jobs.

Education and Training for Economic Inclusion and Higher Quality Jobs

The skills of the labour force are increasingly important to economic performance. Improved education of the workforce can help to raise labour productivity and technological progress, boosting economic growth.² This is particularly necessary in the current investment climate, where the relative wage-differential between Ireland and other former colonised nations means that future competitiveness will require the development of ‘niche’ and high-technology sectors and a knowledge-based economy.

Indeed, in its annual policy statement the 26 Counties’ National Competitiveness Council warns that “as knowledge becomes the basis for competition, education will be increasingly important to economic performance. More and different skills will be required to generate innovative new ideas and exploit technological change. High performance economies and countries will increasingly rely on a culture of continuous learning and adaptation.”³

Thus, a well-developed system of rights to further one’s education, including training and retraining to help de-skilled people to become employable again, is key to future competitiveness. In addition, education and training should not be confined to re-skilling workers made redundant but should support a comprehensive strategy for lifelong learning and skills development to enable all workers – including migrant workers – to achieve their potential. This is essential to prepare for participation in better jobs in a knowledge economy and to prepare for inevitable changes in the economy.

Lifelong learning must be made available to all and it must include a full range of educational services to meet individual, community and economic needs.

Present Education and Training Infrastructure in the 6 Counties

An apparently low rate of unemployment in the 6 Counties (4%) masks a very high proportion of adults who are ‘economically inactive’ (almost 30%). Long-term unemployment is also spatially concentrated, for example in North and West Belfast. In this context, worker education and training needs are acute. To date the policies of DEL and DE have failed to impact upon the high levels of literacy problems (affecting one in four adults) and widespread lack of formal qualifications (affecting nearly one in four adults). Undoubtedly the context of slower economic growth and the decline in traditional manufacturing pose additional challenges.

Historic under-funding by the British Government has led to a training investment deficit. Recent budget cuts have reduced the number of programme places and have stalled innovative pilot schemes. Unnecessary bureaucracy has rendered existing supports less accessible. There is limited and unsatisfactory consultation at community level and there is no all-Ireland harmonisation of qualifications.

² *Irish Congress of Trade Unions, Life Long Learning, Everybody Wins, (June 2005).*

³ *National Competitiveness Council, The Competitiveness Challenge 2005, (November 2005).*

The existing education and training infrastructure in the 6 Counties needs an effectiveness audit and overhaul.

A Literacy Crusade for Economic Inclusion

Nearly one quarter of the Irish working age population north and south lack functional literacy skills. This is the second highest illiteracy rate among eighteen industrial economies. It is an unacceptable situation that deserves urgent action by Government.

Eradication of illiteracy is an achievable goal, required for the elimination of poverty and a prerequisite for participation in higher quality jobs. The elimination of adult illiteracy and innumeracy must therefore be the first objective of any national lifelong learning strategy.

Other countries such as Cuba and Nicaragua have developed successful and innovative initiatives to tackle significantly higher levels of illiteracy than we face here. In Cuba's successful Literacy Campaign, hundreds of thousands of young volunteers were able to reduce their country's illiteracy rate to below 4% in one year (1961). Cuba is currently assisting in the rollout of a similar campaign in Venezuela. Nicaragua was awarded UNESCO's Nadezhda K Krupskaya prize in recognition of the success of its National Literacy Crusade in 1980, which produced similar results. These successful models deserve examination and adaptation to the Irish context.

Paid Learning Leave and Increased Worker Access to Third Level Education

Access to education and training continues to be a major obstacle for manual workers due to cost and time involved (which more often than not is on their own time).

Sinn Féin supports the Irish Congress of Trade Union (ICTU)'s recommendation to introduce paid learning leave, which already exists in a number of European countries. ICTU propose that this would "be proportionate to time spent in the labour force in order to facilitate the upgrading of skills and knowledge, and to allow workers' skill levels to keep pace with innovation in their sector. Payment could be met partly from the social insurance fund in the manner of maternity benefit."⁴ Such a measure would have real benefits for increasing participation in lifelong learning and training of those currently in employment.

Access to third level institutions, including by distance learning and the provision of courses/timetables designed to meet the needs of part time students (weekend courses and evening classes), must also be improved to facilitate workers seeking to up-skill or re-skill. In particular more measures are needed to allow workers without third level qualifications to access such education later in life.

Targeting Workers Vulnerable to Future Jobs Losses in Sectors Under Threat

Ireland is facing into a situation where a high percentage of low skill manufacturing jobs will be lost due to factory closures in the next number of years, and where loss of full-time employment in agriculture will continue or accelerate. We need to plan for this. Examples of

4 Irish Congress of Trade Unions, *Life Long Learning, Everybody Wins* (June 2005), page 17

strategic intervention elsewhere show positive long-term effects, as in the case of the successful Swedish Government action in response to the closure of the Uddevalla Shipyard.

Sectors and geographic locations most likely to be affected by the relocation of companies to lower cost economies need to be identified as a matter of urgency. Where a vulnerable sector or industry is identified specific training and upskilling is needed to create alternative employment for workers facing redundancy.

For example, current developments will see a drastic reduction in the agricultural sector. In this case Government intervention to retrain people to enable a transition to the production of bio-fuel and the promotion of renewable energy would be an appropriate response. With proper planning and supports by the state, this could become a positive opportunity to become a world leader in research, development and manufacture of energy efficient technologies.

Countering the Lower Wage Trend

Global competition is increasing pressure on trade unions to enforce acceptance of lower pay under threat of worker redundancy, the substitution of migrant labour for domestic labour and the outsourcing of labour through sub-contractors who offer lower pay, remuneration or pension provisions.

This “race to the bottom” has already begun and displacement of workers has become increasingly prevalent, exemplified by the Irish Ferries and Gama controversies. Revelations of abuse of migrant workers is now an almost daily occurrence, and is particularly prevalent in the construction, horticulture and domestic worker sectors.⁵ According to research by SIPTU the cost of labour is already being driven down.⁶

Exploitative employers and employment and recruitment agencies, which are playing a significant role in the lowering of employment standards, must be tackled. The rights of all workers in Ireland should be respected and enforced. Establishing EU-wide standards for workers’ rights would greatly assist in arresting the trend towards lower wages and poorer conditions of work.

Promoting Employment Equality and Economic Inclusion

More than a decade of economic growth in the 26 counties has not translated into economic equality. The National Economic and Social Forum confirms that the 26 Counties has less equality of opportunity than most other EU countries and one of the highest levels of income inequality among OECD countries. For example, the richest fifth of the population earn twelve times as much as the poorest fifth. The state ranks 51 out of 56 for economic opportunity for women, who are more likely to be underpaid in the part-time and service sectors. People with disabilities are two and a half times to four times less likely to have a job.⁷ Travellers

⁵ *In order to improve the lives of migrant workers Sinn Féin is seeking reform of the work permit system, the codification of a common set of core rights and entitlements for migrant workers including family reunification, and the option of permanent residence after a fixed period. Migrant workers must have rights equivalent to those of Irish workers, including health, housing, welfare and education rights.*

⁶ ‘Manus O’Riordan, Head of Research - SIPTU, ‘Driving down cost of labour by manipulating foreign workers’, *Irish Times* (13 January 2006).

⁷ *National Economic and Social Forum, Creating a More Inclusive Labour Force (February 2006); Disability Action, Response to OFMDFM Consultation on the Draft Disability Discrimination (NI) Order (April 2005).*

are more likely to be undereducated and unemployed, and/or face discrimination in employment. Asylum seekers are prohibited from working, refugees' qualifications are often not recognised as equivalent and so they end up underemployed. Equal pay for work of equal value is not a reality for women, for many migrant workers, or disabled workers in sheltered workshops.

Likewise, despite claims to the contrary from many quarters, nearly a decade of Good Friday Agreement equality guarantees have still not translated into economic equality in the 6 Counties. The poorest members of society in the north, both unionist and nationalist, are relatively worse off than they were 10 years ago⁸ while nationalists are still more likely to be in poverty, are nearly twice as likely to be unemployed, experience higher levels of long term unemployment and are more likely to be economically inactive.⁹

A range of targeted training strategies and specific affirmative action measures, based on targeting objective need, are necessary to meet the specific employment and economic needs of each disadvantaged group of workers. In tandem with this full compliance with the Section 75 statutory equality duty is needed, something which has been lacking to date.

Sinn Féin is calling for:

- Development of a single all Ireland education and employment training strategy and a single training agency for a single economy. In the meantime, the state agencies and departments involved in implementing and promoting life long education and training should coordinate their efforts on an all-Ireland basis, as per the commitments under the current Common Chapter.
- Extension of the current Common Chapter Human Resource Development commitments into a new Common Chapter for 2007-12.
- A 'literacy crusade' with specific target dates for the incremental eradication of illiteracy.
- Introduction of paid learning leave.
- Identification of sectors potentially vulnerable to job losses and the development of a proactive strategic plan to transform the sector and/or retrain the workers.
- Equal rights and protections for all workers.
- Greater enforcement of penalties on employers for exploitation.
- A range of targeted training strategies and specific affirmative action measures to meet the employment equality needs of all systematically disadvantaged groups.

Enhancing the Enterprise Environment

Sinn Féin is committed to building and maintaining an economic environment that enhances enterprise and job creation. We need to build an enterprise environment that encourages new business, retains existing business, and provides favourable conditions in which business and workers can operate. The justifiable quest to make the economy more competitive cannot be at the expense of workers' rights or other economic and social rights.

⁸ CAJ, *Equality in NI: The Rhetoric and the Reality*, September 2006.

⁹ OFMDFM, *Indicators of Social Need* (September 2004); OFMDFM, *Labour Market Dynamics Report* (November 2005).

The Nordic Model for Competitiveness

When it comes to competitiveness, the ‘Boston or Berlin’ dichotomy has proven false. The Nordic countries provide the best example in this regard. They hold five of the top ten positions amongst the most competitive economies in the world. This is due to their “high levels of government tax revenue [that] have delivered world-class educational establishments, an extensive safety net, and a highly motivated and skilled labour force.”¹⁰

The current dominance of Nordic economic competitiveness stands in direct contrast to the conventional wisdom that high taxes and large safety nets undermine competitiveness, showing that what is important is how well government revenues are spent, rather than the overall tax burden per se.¹¹

Indeed, despite its low tax environment, the 26 Counties now comes only 26th in the world ranking for competitiveness.

Until recently it was difficult to get a real picture of the competitiveness of the 6 Counties because much of the information was integrated with that from Britain. However the Economic Research Institute (ERINI) report entitled *Measurement and Benchmarking of Competitiveness – The Cost of Doing Business in Northern Ireland* - compares business costs in the 6 Counties with the rest of Ireland, Britain, the EU and internationally. Overall, there are lower labour costs, but higher energy, insurance and transport costs. While rates are lower this is in the context of lower levels of wealth and impending water charges and increased rates. ERINI found that on balance, business costs in the 6 Counties are relatively competitive when compared to the rest of Ireland and Britain by reason of lower labour and property costs (although housing costs are increasing dramatically).

According to the 26 Counties’ National Competitiveness Council “the intensification of competition from low cost locations has coincided with, and exposed a sharp rise in Ireland’s cost base in recent years.”¹² This has resulted in further pressure to keep the corporation tax regime amongst the lowest in the EU. Certain economists also want us to emulate the low cost base in Eastern Europe and developing states by cutting labour costs by interfering with workers rights, standards and terms of employment and by the displacement of workers and their replacement with migrant workers on lower pay and diminished conditions. Competitiveness achieved on such foundations is not acceptable. It is also not a factor in the relative success of the Nordic economies.

The rising cost base is undeniable. However, several contributing factors can be remedied by appropriate, progressive Government intervention and Government policies which reduce the burden of housing, healthcare and childcare on ordinary workers will have a positive impact on wage inflation.

Increasing oil prices are also contributing to higher operating costs for business. This problem is likely to worsen in the years ahead, particularly as it is estimated that on the island of Ireland we are almost 90% dependent on imported energy. To further reduce this cost of doing

¹⁰ World Economic Forum, *Global Competitiveness Report 2005-2006* (September 2005).

¹¹ It is worth noting that Sinn Féin is not recommending wholesale adoption of the Nordic model as the solution. It is not without flaws and it is also not sufficient to realise our overall vision. However its track record does corroborate many of our economic policy proposals as not only credible but also capable of generating economic success in conventional terms.

¹² National Competitiveness Council, *The Competitiveness Challenge 2005* (November 2005) page 5.

business, Government must urgently pursue strategies to reduce the dependence on imported and non-renewable sources of energy and accelerate promotion of bio-fuels and the development of energy saving technologies.

The Mythology of the Low Corporation Tax Regime

Just as lowering workers' terms and conditions is not an acceptable strategy for increasing competitiveness, it is also not sustainable to compete with other states by engaging in a race to the bottom on corporation tax if we want to maintain the level of public services and infrastructure which individuals, communities and businesses need and deserve.

A low tax, low public service provision economy is not viable in the longer term if we are to achieve a more equal society with an acceptable level of social provision and high living standards for all.

Corporation tax is not a punitive charge on business. It is a mechanism by which business pays for the services provided by the state which enhance the business environment such as transport, telecommunications and energy infrastructure, and the education and training which gives its workforce the skills required to meet its needs.

Sinn Féin challenges the view that the 26 County state would not be competitive and the economic boom would not have occurred but for the low level of corporation tax, now less than half the EU average.¹³ Other factors played an equally important role. In particular, the Expert Group on Future Skills Needs has asserted that "human capital, in the form of education, played a very significant role in the rapid development of Ireland over the last four decades".¹⁴

Under the current corporation tax regime too few benefit. Contrary to the orthodox presumption, wealth remains concentrated rather than redistributed. In other words, there is precious little 'trickle down' and corporation tax cuts don't really work the way economists have claimed they are supposed to. That is, they are usually not passed on as more jobs, higher incomes and cheaper goods and services.

Some commentators insist that raising corporation tax will result in a "flight" of capital. Others such as the Economic and Social Research Institute and CORI disagree, maintaining that corporation tax is only one of the attractions for firms coming to Ireland, and in the 26 Counties raising the corporation tax rate to 17.5% – still only about half the EU average – would not in and of itself adversely affect competitiveness.

It is true that competition between countries on corporation tax rates already exists and is likely to intensify. There are already significantly lower corporate tax rates even within the EU. For example, Estonia has a zero per cent corporate tax rate, Cyprus is at 10%, and Hungary continues to reduce its rate. There is no benefit in trying to compete in this race to the bottom. While low corporation tax rates have been a factor in inward investment they are becoming less relevant and will likely no longer be a factor in the next decade or so as other elements and incentives become more important.

¹³ The corporation tax rate was reduced from 32% in 1995 to 12.5 % today (it is only 10 % for some sectors).

¹⁴ DETE Expert Group on Future Skills Needs, *Data Analysis of In-Employment Education and Training in Ireland* (November 2005).

Ultimately, low corporation tax is not necessary for effective competition. This is a myth, as the Nordic economies illustrate.

The Hidden Costs of the Low Corporation Tax Regime

Corporations not paying their fair share in tax also has broader implications, and imposes hidden costs.

Alongside the low corporation tax in the 26 Counties had been a parallel development of low public spending compared to our EU neighbours. Irish Government spending (in total) as a percentage of GDP was 30% in 2004, whereas the EU 15 average was 42%.

A 2005 study by the Combat Poverty Agency, *Irish Social Spending in a Comparative International Context*, found that social spending per head in the 26 Counties is just over half the EU average. That means the 26 County state should be spending almost twice as much on social protection in order to reach EU standards.

The consequent low level of public sector provision is heavily over subsidised by high VAT, which hits the poorest sections of society the hardest. According to the 26 county Department of Finance, the cost to the Exchequer of corporation tax forgone as a result of the reduction in the standard rate of corporation tax from 16% to 12.5% is approximately €400 million per annum.¹⁵ There is also the issue of repatriated profits in the 26 Counties. Over €25 billion annually is now siphoned out of the economy according to CSO figures.¹⁶

The present low corporation tax regime is also an impediment to the promotion of R&D as their incentive value is much reduced where a low corporation tax regime already exists. Low corporation tax actually has a negative impact on the promotion of R&D because international companies prefer to undertake R&D investment in high tax countries where the value of the tax write off is larger.

Therefore, not only does a low corporate tax regime not necessarily provide the benefits alleged, it also imposes hidden costs by eroding the ability of the state to pay for public services, imposing a disproportionate tax burden on those least well off, and undermining R&D essential to the economy's future.

For these reasons, we conclude that cutting corporation tax is not the best way to create a favorable enterprise environment. Corporation tax needs to be looked at in tandem with other measures that create a supportive enterprise environment.

A Progressive Regulatory Framework To Promote Competitiveness

Sinn Féin believes that a progressive regulatory policy can play a central role in ensuring the economy serves the needs of society, and can also benefit business and competitiveness. Regulating to protect public health, safety and the environment can have real economic advantages, and can support enterprise and competitiveness domestically and internationally.

¹⁵ Reply from the Minister Finance to Parliamentary Question 476 (28 September 2005).

¹⁶ Part of this profit may be attributable to transfer pricing, as some corporations overstate their exports and understate their imports in order to book their profits in low tax Ireland. Transfer pricing involves the overpricing of imports and/or under-pricing of exports between affiliated companies in different countries for the purpose of transferring profits, revenues or monies out of a country in order to evade taxes.

An example of this is the beneficial impact on competitiveness of environmental regulation. According to the Network of Head of European Environmental Agencies “there is now significant evidence from international research that good environmental management and regulation does not impede overall competitiveness and economic development. On the contrary, it can be beneficial by creating pressure that drives innovation and alerts business about resource inefficiencies and new opportunities.”¹⁷ They also conclude that effective environmental regulation is integral to successful markets, an essential ingredient in a vibrant modern economy and that “unregulated markets would be chaotic, unfair and unlikely to deliver what people want – safe reliable products and a clean environment to live and work”.¹⁸

Other studies have found that environmental regulation leads to job creation and innovation of new technologies that can then expand the economy.

Regulatory Policy Can Benefit Business

Many regulations benefit business. Regulatory policy can also help create a level playing pitch for indigenous business. An example of regulations which benefit the small and medium enterprise (SME) sector are the Retail Planning Guidelines in the 26 counties which put limits on the size of new retail warehouse outlets and are recognised internationally as an example of best practice. They prevent the emergence of the massive superstores that dominate the British and American retail industries. These guidelines and the now removed ban on below-cost selling have ensured that retail development in the 26 Counties takes place in a relatively sustainable manner that provides a measure of protection to small traders and local economies.¹⁹

Sinn Féin accepts that there are genuine concerns regarding the regulatory burden on business, particularly on SMEs. We want to encourage entrepreneurship and aid the small and medium enterprise sector but workers’ rights, environmental sustainability, protection of consumers, employees and vulnerable groups, and health and safety considerations cannot be sacrificed to this end. We believe the solution to this concern lies in regulating better, not regulating less.

We support statute law review, consolidation and simplification as well as all-Ireland harmonisation. The key is to strip away complex and contradictory legislation that may go back over 150 years and establish easy to comply with, progressive and fair regulations, rules and laws that protect the public interest.

Investing in Infrastructure for Balanced Regional Development

Business needs infrastructure for sustainable economic growth. In the modern international economy what matters is access to resources and infrastructure, especially the new information and communication technologies (ICT) as well as transport and energy. Sinn Féin is committed to regional equality and we believe that proactive government intervention is necessary to eliminate regional disparity and the persistent infrastructure deficits and to bring about balanced regional development.

¹⁷ *Network of Head of European Environmental Agencies, The Contribution of Good Environmental Protection Agencies (November 2005).*

¹⁸ *Ibid.*

¹⁹ *There is no analogous regulation in the 6 Counties.*

Failures of Development Despite Growth

Despite the unprecedented opportunities created by economic growth, the country is still characterised by unbalanced regional development and deficiencies in infrastructure, north and south. The east coast region is over-developed and the border, midlands and west (BMW region) remain under-developed.

In western regions, particularly in the North West, there are major gaps in transport, energy and telecommunications infrastructure which inhibits future growth. Not coincidentally, these regions are also experiencing higher rates of unemployment and lower levels of income. In recent years employment has grown at a slightly faster rate in the BMW, though most of this has been concentrated in low value-added industries.²⁰

The consequences of this disparate development can be seen from the recent Combat Poverty Agency /ESRI report *Mapping Poverty*, which showed conclusively that the border, northern and western regions generally have poverty and unemployment levels far higher than in urban centres. According to the 26 Counties' Central Statistics Office, there was a greater risk of poverty among those living in the Border, Midland and Western region (26%) compared with the Southern and Eastern region (17.2%).²¹ In addition, the continued decline of the textile and other manufacturing industries along with the ongoing rationalising of agribusiness facilities on both sides of the border clearly indicate that regional economies are undergoing serious structural crises despite the unprecedented economic growth.

This situation calls for strong Government action.

The Irish Government made commitments to balanced regional development and tackling regional disparities in the National Spatial Strategy, the National Employment Action Plan 2003-2005, and the National Development Plan (NDP), while the British Government made commitments to balanced regional development in the 6 Counties in its Regional Development Plan. European Union structural funds have also been directed at the promotion of balanced regional development.

The 26 Counties' National Development Plan has allocated funding of €26 billion in the period 2000-2006 to infrastructure projects. In addition, the Irish Government has moved to a multi-annual programme for capital spending. Essentially they have moved from an ad-hoc to a planned approach. This is generally welcome.

However, five years into that plan it is clear that there are major problems progressing the commitments on infrastructure contained in the plan. Physical infrastructure is now significantly behind target in a number of key areas. This is primarily due to cost overruns, delays in the planning process and poor programme management. With the exception of some road projects, there is evidence that projects are generally failing to meet completion dates and stay within budget.

An area of particular concern is the underspend on roads projects in the BMW region, already playing catch-up with the South and East. The June 2004 progress report from the Economic and Social Infrastructure Operational Programme (ESIOP) of the NDP shows that just over

20 NDP/CSF Regional Socio-Economic Indicators 2005, as cited in the Eleventh Progress Report to the Monitoring Committee for the Border, Midland and Western Regional Operational Programme.

21 Central Statistics Office, EU Survey on Income and Living Conditions (EU-SILC), 2004 (December 2005).

half of the forecasted expenditure on roads in the BMW region had been spent while 121% of the forecasted expenditure in the South and East region had been spent.

The fact that the problem of unbalanced development has actually worsened in recent years as the overdevelopment of the Eastern region has intensified clearly shows the inadequacy of the Irish Government's response.

In the 6 Counties the British government's track record is no better and investment continues to be skewed towards the Greater Belfast area and the East. While Sinn Féin welcomes the £16 billion Investment Strategy on the basis that any attempt to redress the infrastructure deficit in the 6 Counties is welcome we are concerned that there is a dependence on privatisation and that extra charges to pay for the investment will be levied through the introduction of water charges and increased rates.

In addition, the Section 75 equality duty and New Targeting Social Need (NTSN) commitments mean that public resources are supposed to be directed towards protected categories of people and areas of greatest need. Regionally, that means West of the Bann, the border counties, and places like North and West Belfast (which have the highest levels of economic inactivity and top the league table for deprivation). Yet investment continues to be concentrated East of the Bann.

Balanced regional development must be a key component of any genuine Peace Dividend which can only come about through the creation of proper linkages with the 26 Counties' National Development Plan thereby delivering economies of scale, better integration of services and greater value for money.

Enhancing Transport Networks

The failure to develop an integrated all-Ireland transport policy is a serious inhibitor of regional economic development. The public transport networks are chronically under-funded. Consequently, traffic gridlock is a major problem in urban centres and on major roads. There is a virtual absence of a rural community-based transport system. In most parts of rural Ireland private cars are the only form of transport.

Sinn Féin believes that public transport should be a priority and is committed to working for an all-Ireland transport system and transport policy which provides quality, reliable and affordable public transport. The development of transportation networks needs responsible planning in order to minimise the negative environmental impact and avoid negative impact on Irish heritage sites.

Rail

Sinn Féin wants to see the re-opening of many of the rail lines closed in the mid to late twentieth century and an extensive expansion of an all-Ireland rail network in the coming decades, including an extended Western Rail corridor serving Donegal, the Derry-Dublin rail link, and the West Cork railway network. We also want to see the development of a rail link to Shannon airport and the upgrading of the Derry-Belfast rail link.

Roads

Sinn Féin wants to end the delays in cross-border road projects such as the Dublin to Belfast link (the delay is on the 6 Counties' side) and the N2/A5 route, as well as the serious under-spend on road improvement projects in the 26 County BMW region and the west of the 6 Counties. We are opposed to the use of Public-Private Partnerships (PPPs) to finance road construction as they do not offer value for money.

Air

An all-Ireland strategic review of the air industry is needed including the carriers and the airports in order to ascertain more clearly the contribution and role of these resources in the national economy. Sinn Féin strongly supports the use of Public Service Obligations (PSOs) to ensure the delivery of air services to the West and North West and to increase the availability of north-south routes.²²

Sinn Féin believes that transport facilities can be efficiently and cost-effectively run by the public sector and should not be privatised. The failure of Rail Track and other private transport initiatives in Britain demonstrate why private ownership of transport facilities is not in the public interest.

Enhancing Energy Networks

Fuel and energy networks are central to economic development. Households and business need affordable and environmentally sustainable energy. Yet Ireland, north and south, is heavily dependent on non-renewable energy imports, the prices of which are rising worldwide.

Sinn Féin believes that there should be an all Ireland energy policy directed towards state-led development of efficient, cost-effective, natural and renewable energy resources, focused on ending external dependencies and reducing fossil fuel emissions.²³ In addition to an island's abundant access to wind and tidal energy, Ireland also has the agricultural land and a suitable climate for growing vegetable oil and other fuel crops. Given these conditions, Ireland should be leading the world in the generation of renewable energy.

Sinn Féin supports devoting significant investment into the development of environmentally friendly domestic energy alternatives. As well as reducing our dependence on imports, oil and other fossil fuels this would provide a potentially significant alternative income source for rural communities.

Sinn Féin also supports environmentally responsible state management of non-renewable natural resources. The experience of Norway proves the benefits of state involvement in the mineral exploration sector, where it has become one of the engines of economic growth. In the 26 counties, however, the Irish Government has surrendered all of its stake in any finds, reduced tax levels, abolished royalties and granted long-term frontier licenses to private companies, a prime example of this being the Corrib gas field and the disastrous role of Shell.

²² In May 2005 Aer Arann was re-awarded four Public Service Obligation regional air routes by the Department of Transport. The airline will continue to operate scheduled services on routes linking Dublin with the regional airports in Galway, Kerry, Sligo and Donegal while Scottish regional carrier Loganair was awarded the contract for the operation of routes linking Dublin with Knock and Derry City airports.

²³ Sinn Féin remains fundamentally opposed to nuclear energy, and does not accept the argument that it is a viable alternative to fossil fuels.

New opportunities in wind, wave, tidal, biomass and other energy sources must be developed in an equitable way. If the promotion of such technologies was made a political priority all of Ireland could be at the centre of scientific, environmental and technological progress. This would benefit our industries, our environment and our universities. The public sector is best placed to ensure responsible management, efficient utilisation, and equitable distribution of energy on the island.

The recent creation of an all-Ireland energy market is a welcome first step in improving the efficiency and reliability of our energy supply. Sinn Féin supports this and the development of an All-Ireland Energy Strategy to be implemented by an all-Ireland Energy Implementation Body. The potential of the social economy in promoting community-owned energy generation opportunities has been recognised by the EU for over a decade, and needs to be a central part of that strategy.

Bridging the Digital Divide

New technology is essential for building businesses and participation in better jobs. It is vital that all of the island's towns and regions, whether in isolated rural areas or neglected urban communities, have access to new technology that is the basic building block of the knowledge economy.

The Common Chapter for 2000-2006 committed both Governments to integrate the currently divided telecommunications systems. However, as yet, the border remains an arbitrary dividing line for communications infrastructure. Specific, measurable and time-bound commitments, including an all Ireland mobile phone tariff, need to be implemented.

In the 26 Counties the ability of the Government to ensure the roll-out of broadband was significantly hindered by the privatisation of Eircom. In the north the roll-out of broadband has been considerably more successful, however problems remain around take-up, accessibility and cost particularly in rural areas. These problems need to be redressed urgently.

We need to ensure that existing telecommunications networks are developed and improved and that the new high-speed fibre optic networks are constructed under the principle of universal provision.

Sinn Féin is calling for:

- Establishment of an all-Ireland rail network.
- A firm deadline for completion of the cross-border road network.
- A strategic review of the air industry and an increase in availability of north-south air routes.
- Establishment of an all Ireland state oil and gas exploration company.
- A long-term, environmentally sustainable All-Ireland Energy Strategy to develop renewable alternatives to fossil fuels, to be initially implemented by a new All-Ireland Energy Body.
- Significant investment in development of sustainable, renewable domestic energy alternatives, such as wind, wave, tidal, biomass and biofuel.

- All telephone exchanges to be ADSL (Asymmetric Digital Subscriber Line) enabled.
- An enhanced cable infrastructure throughout the country under full universal public provision, enabling the deployment of new technologies to all communities and especially to schools.
- Development of commitments entered into under the Communications and E-Commerce section of the Common Chapter 2007-12.
- Development of all essential infrastructure under public ownership and management.

Developing Indigenous Enterprise

Sinn Féin supports the development of indigenous enterprise, in particular SMEs and the social economy. Developing indigenous enterprise requires active Government support for local entrepreneurship and practical encouragement to make it more inclusive.

Encouraging an Inclusive Entrepreneurship

In the 26 Counties what is termed Total Entrepreneurial Activity (TEA) was just under 8% in 2004. This means one in thirteen adults are engaged in some form of entrepreneurial activity. In the 6 Counties the figure is just over 5%, about one in twenty adults. The comparable TEA figure for the US is over 12%. In the 26 Counties the growth of VAT registered businesses increased by 45% between 1996 and 2002. In the 6 Counties the growth for the corresponding time period was just 5%.

The 2003 Global Entrepreneurship Monitor (GEM) found that new businesses in the 26 Counties were largely in construction (21%), consumer services (21%) and business services (19%). Over 80% of these new businesses are SMEs, employing five or fewer employees, with one third being sole traders. In the same period in the 6 Counties new businesses were being formed in the retail (23%), construction (22%) and business services (13%) sectors. Across the island the amount of new manufacturing businesses was very small, accounting for only 2% of new businesses in the 26 Counties and 5% in the 6 Counties.

Less than 15% of 26 County entrepreneurs considered their business to be following an innovative model and the vast majority were replicating an existing model. This reflects the low value accorded to innovation and R&D.

In relation to start-up funding, in the 6 Counties half of entrepreneurs expect to start their business with less than €14,500 compared to an initial investment of €20,000 in the 26 Counties.

Throughout Ireland entrepreneurs are usually young and male and have third level education and/or postgraduate experience. The lowest amount of entrepreneurial activity is among those over 55 years of age. Women's entrepreneurial activity has grown significantly in recent years but remains low at 3.5%. Thus entrepreneurship is still an age-, gender- and class-exclusive domain.

The 2003/2004 Invest NI Annual Report also showed a geographical bias in new business start-ups in the 6 Counties, which were concentrated in the Greater Belfast Area and East of the Bann. The 26 Counties has a similar concentration of new business growth in the East and urban centres.

Disincentives to Entrepreneurship

The GEM report shows that significant segments of the population – in particular women and people with lower educational attainment levels – are not active entrepreneurs or feel dissuaded from involvement in entrepreneurial activity. Lack of access to funding and investment were cited as being one of the main factors that inhibit entrepreneurial activity. Fear of failure is another factor, as are lack of skills, education and experience.

Of seventy five separate entrepreneurial programmes run throughout Ireland under the auspices of the enterprise development bodies including Enterprise Ireland, Invest NI, the Industrial Development Agency, InterTradeIreland, Forfás and Shannon Development, only one of these is geared towards encouraging women into entrepreneurial activity and only one is aimed at community-based entrepreneurial activity.

These findings clearly illustrate the need for a new approach from government agencies towards developing entrepreneurial activity. We need a strategy that is fully inclusive in terms of gender, geography and other exclusionary factors, and one that can find ways to provide the education and other skills needed to initiate entrepreneurial activity.

A Strategy for Inclusive Entrepreneurship

We must therefore work towards a situation where all social groups have an equal opportunity of undertaking entrepreneurial activity. This will also have the welcome effect of further developing and increasing participation in enterprise.

At minimum, this means affirmative action to increase the entrepreneurial participation of women, people with lower levels of educational attainment or from backgrounds of inter-generational disadvantage, older people, people with disabilities, members of ethnic minorities, rural people, and Irish speakers.

The lower levels of entrepreneurship in the border region reflect not only problems around accessing markets but also the higher levels of poverty and economic inactivity in these areas. This under-represented geographical area needs particular attention, and would benefit from specific support and funding to develop local entrepreneurship.

A wider definition of entrepreneurship based on socially beneficial principles can also offer a way to encourage entrepreneurial economic activity in which all of society can participate. An entrepreneur is simply someone who creates or starts a new project or venture. In the twenty first century the word has become synonymous with business activity as in contemporary society the business model has become the dominant unit of economic organisation. However, this narrow focus has the effect of excluding large sections of society who could otherwise make an active contribution to Irish entrepreneurship.

We therefore need a wider definition of entrepreneurship, which should include:

- **Community entrepreneurship**, where local business projects do not have at their core an underlying profit motive. Their alternative objectives could be maximising employment opportunities, training for employment, or providing a complementary service to other economic activities (for example, a subsidised transport system, a community building project, crèche facilities and after school programmes for working parents). Usually these projects are part of the social economy (see below).
- **Environmental entrepreneurship**, where the objectives of the business venture are, as above, underpinned not exclusively by profit but also by environmental objectives.
- **Entrepreneurship based on cooperatives**, either in a rural or urban setting, whereby workers own and control the company and share the profits (again, see below).

Sinn Féin is proposing:

- An integrated review of all the existing entrepreneurial programmes currently in operation on the island, with the objective of creating a more co-ordinated and inclusive approach for business development rather than the multi-tiered hierarchical approach currently in operation.
- Increased funding for entrepreneurial projects.
- Affirmative action in funding and other support for businesses and enterprises with particular focus on redressing the imbalance in gender, regional, rural and social participation, and for start-ups operating in the Irish language.
- Encouragement of new product and sectoral development and increased R&D activity.
- A programme for provision of supplementary education, experience and other skills new entrepreneurs need to succeed.

Encouraging Enterprise in the Social Economy

Sinn Féin believes that more attention should be devoted to the development of the social economy. The social economy transcends the often exploitative relationship between worker and employer and encourages empowerment, collective approaches to production and ecological sustainability.

The social economy is now receiving greater recognition in the EU and all member states' national development plans must now facilitate the growth of the social economy. Within the EU the sector employs over 10 million people. Throughout Ireland it is estimated that the social economy accounts for between 5-8% of economic activity. This is comparable to the 6 Counties' tourism industry at 5.6% or its construction industry at 5.1%.

It is increasingly recognised that the social economy has an important role to play in society particularly by enhancing the economy within communities suffering social and economic exclusion.

The social economy is necessary to build a strong, stable and egalitarian economy. Therefore, a core objective of any economic development policy should be to support the full development of this presently neglected area of entrepreneurship.

The social economy generally (but not exclusively) operates in areas of market failure, whether in particular geographical areas or in a sector which is not usually profit-driven, for example, childcare. They are usually areas overlooked by the private sector because they are deemed difficult to return a profit or simply because better opportunities arise elsewhere.

The social economy also plays a particularly crucial role enhancing the economy in areas of deprivation such as the border region, rural communities, inner city areas and peripheral housing estates otherwise excluded. In the 6 Counties the social economy has the potential to help rebuild communities which bore the brunt of the conflict and still suffer from exclusion, discrimination, disadvantage and marginalisation. These communities, because of their disadvantaged status, have a unique case for centrally subsidised social economy projects which are not conditional on long term economic sustainability.

Harnessing the Potential

Like any area of business the social economy needs to be dynamic and able to respond to changing needs within society. It needs to be recognised as a serious sector of the economy which gives added-value to economic and community development.

Since conventional market forces generally do not operate within the social economy (i.e., the primary reason for their existence is not to make a profit), social economy organisations often require public subsidy. However, it should be recognised that many social economy projects can become self-sustaining and some pay for themselves in other ways. For example by reducing unemployment and increasing community cohesion, they can in fact save society money in the longer term.

The following have been identified by the EU as areas for development of the social economy, where services are not being supplied by either the private or public sector:

- everyday services such as childcare
- services which enhance local districts (for example, housing improvements, improved public areas in urban centres, local public transport services)
- cultural and leisure services including traditional small-scale arts and crafts industries (tourism, audio-visual services, cultural heritage, local cultural development)
- environmental services (waste management, management of water services, protection and maintenance of natural areas, regulation and monitoring of pollution control)
- energy saving and management of renewables (recycling, composting and energy schemes, domestic energy service companies)
- regional food markets involving pacts between producers and consumers (box schemes, subscription farming, food co-operatives, market stalls)
- community based housing provision (self-build and self-repair projects, resident managed co-operatives)

- community based workspace provision (repair of buildings for work or community use or for art space, new buildings for work or community use, self-build for work or community use, reclamation of land for workspace)
- training and employment projects based on regeneration of areas (construction and non-construction skills training such as managing, costing and financing a project)
- new financial instruments and supports (community trusts and foundations, community loan funds, local exchange trading schemes (LETS), credit unions)

The social economy sector has traditionally been neglected and largely dismissed by Governments, hence its full potential remains untapped.

Groups and organisations operating within the social economy have found it particularly difficult accessing the wide range of business advice, guidance and training essential for social economy enterprises. They have historically received little support and there are no dedicated management development programmes for the sector. This needs to be redressed on an all-Ireland basis.

Sinn Féin is calling for:

- The establishment of an all-Ireland network of social economy businesses and other enterprises.
- A co-ordinated and comprehensive Social Economy Strategy on an all-Ireland and cross-departmental basis. This would involve the creation of an appropriately funded, all-Ireland Social Economy Development Agency to develop the sector strategically. This should be under the aegis of the All-Ireland Ministerial Council and should report directly to the Taoiseach's Office and to OFMDFM. It should be a genuine participatory structure whereby those involved in the social economy are represented and can have effective input into policy formulation.
- Increased investment in community-owned enterprise units and infrastructure by the enterprise development agencies.
- Measurably increased servicing of the sector by provision of business advice, guidance and training alongside dedicated management development.
- Help and training so that social economy businesses can tender for government procurement.
- Government support for social economy community-run projects in the renewable energy, recycling, housing, agricultural, childcare and social service sectors.
- Effective evaluation and monitoring to assess the impact of economic development programmes under the New Targeting Social Need (NTSN) and National Anti-Poverty Strategies (NAPS) in the 6 and 26 Counties.

Encouraging Indigenous Enterprise and SMEs

Locally-owned or indigenous enterprises are crucial to the growth of the economy as they are generally more permanently embedded and the majority of sectors source proportionately more material and services from domestic suppliers than their overseas counterparts.

Furthermore, indigenous enterprise is more geographically dispersed and regionally balanced than foreign-owned enterprise and is therefore essential to the achievement of more balanced local and regional development.²⁴

Indigenous SMEs provide the majority of employment,²⁵ thus playing a crucial role in creating and sustaining income and employment as well as helping to maintain a balanced enterprise base. As they are more reliable for job creation and economic stability, Sinn Féin's enterprise policy emphasises the development of indigenous enterprise over FDI, and SMEs over large firms.

The Role of Enterprise Development Agencies

Enterprise Development Agencies (EDAs) are needed to implement the enterprise policy of Government and to stimulate business growth. While Sinn Féin supports the crucial work of the EDAs, we also have critiques and there are aspects of their work that need to change. Ten years into the economic boom and the peace process, the time is ripe for evaluating the performance of all the EDAs on the island, to acknowledge and troubleshoot their shortcomings and to work towards better coordination and planning on an all-Ireland basis.

On the whole, the EDAs have failed to develop the export potential of the indigenous sector to any significant degree. According to DETE's Enterprise Strategy Group Report *Ahead of the Curve*, a majority of indigenous SMEs in the 26 Counties still do not export while many that do continue to focus heavily on the British market.

EDA support for SMEs has primarily targeted the limited number of companies that fit into their 'high potential' category. These are mainly in the technology sector with a high proportion of their output sold in export market. Other SMEs, particularly those that do not have an export potential, are being ignored. This is not the right policy. Consideration should also be given to the import substitution potential of such companies. The fact that responsibility for both FDI and small businesses rests with INI has created its own problems for the small business sector.

Overdependence on FDI

The higher concentration on FDI in the 26 counties as opposed to indigenous industry has resulted in an unhealthy over-reliance on multinationals in that economy. This is a risky position to be in given the unstable nature of global markets and global capital, and the ability of multinational companies to move quickly to other, cheaper locations.

In the 6 Counties FDI has also been generally promoted over indigenous business development, although INI is now moving to emphasise the need to develop indigenous industry and make it export-led. The main constraint is the low start-up rates of business and the high failure rate. To compound this problem, in 2005 INI's Start a Business Programme (SaBP), designed to help small local businesses, suffered severe budget cuts of over 40%. Confidence in INI amongst the business sector, particularly small businesses, is extremely low.

²⁴ According to the Review of Industrial Performance and Policy 2003.

²⁵ The European Union defines SMEs as follows: 'medium sized enterprises' have between 50 and 249 employees with a turnover threshold of €50 million; 'small enterprises' have between 10 and 49 employees with a turnover threshold of €10 million; 'micro-enterprises' have fewer than 10 employees and a turnover threshold of €2 million.

The over-dependence on FDI will continue to be an issue of ongoing concern as multinational corporations and foreign investors encourage a ‘race to the bottom’ in corporation tax rates, pay and working conditions on a global scale. Ireland cannot compete with the developing world or with Eastern European countries on these terms nor should we try. One way to guard against the destabilising effects of short-term capital inflows and subsequent outflows is the promotion of a strong indigenous enterprise sector. So far, the EDAs have failed to do this effectively.

Generating Low Quality Jobs

FDI advocates argue that multinationals are advantageous not only because of their higher than indigenous rate of R&D, but also because of their higher skilled jobs and their higher wages on average. This is partly true but it doesn’t give the whole picture.

First, this argument tends to overstate the value of FDI jobs to the economy overall. For example, of approximately 2 million people working in the 26 Counties, less than one tenth (just under 134,000) are working in FDI-generated jobs.

In addition, the quality of jobs created by FDI has been a matter of some concern and while there has been some improvement the job quality is still mixed. For example, the multinationals in the 26 counties generally locate the manufacturing end of their operations here while retaining the R&D or sales and marketing departments that generate the highest quality jobs back in their countries of origin.

In the 6 Counties, the experience of FDI has not been positive. Large amounts of public money have been used for short-term, low value job creation. In fact, INI actively promotes the 6 Counties as a low wage economy.

Reinforcing Inequality

There has been a particular failure by INI to invest and create jobs in the border regions, West of the Bann and North and West Belfast in comparison to its support for other areas of Belfast and East of the Bann. This has not only aggravated the existing imbalanced regional economic development but has also entrenched the higher rates of disadvantage for these areas which are, in the main, predominantly nationalist. The effect of INI’s work has therefore been the reinforcement of existing inequalities.

Similarly, despite some recent improvements the IDA has likewise failed to spread the positive impact of FDI across a larger geographical area, particularly the BMW. The work of the EDAs in the 26 Counties to date has also largely reinforced regional inequalities.

Questionable Value for Money

Overall there is a lack of transparency and accountability around the activities and the spending of the EDAs, and this needs to change. In the 26 Counties for example, a recent study by Irish and British academics found that approximately €5.5 billion has been spent on direct assistance to firms by the IDA, Enterprise Ireland, Shannon Development and Údarás na Gaeltachta in the years 1980 to 2003. They found that evaluation of this spending was largely confined to ensuring the money was spent as planned rather than the effectiveness of the investments made. Significantly, they also found that nearly 50% of the Irish firms given

grants to create jobs would have generated the jobs anyway. Therefore, serious questions remain as to the real value of this spending.

In relation to the work of the EDAs Sinn Féin proposes:

- The establishment of a time-limited, ministerially-driven All-Ireland Small Business Task Force under the aegis of InterTradeIreland to develop a comprehensive island-wide strategy for the indigenous SME sector.
- The creation of all-Ireland bodies to coordinate economic growth and eliminate unnecessary competition.
- Development of a comprehensive programme for preferential assistance to social economy projects, micro-enterprises (those with less than ten employees) and small enterprises (those with between 10 and 49 employees).
- Affirmative action to assist economic and business development and enterprise initiatives from marginalised groups and communities.
- Increased transparency and democratic control and accountability of the EDAs.
- Greater responsiveness by EDAs to the needs of local communities.

Promoting R&D and Creating a Collaborative Innovation Environment

Economic policy makers need to be thinking now about how to deal proactively with future employment needs as the economy changes. It has been consistently shown that in the long term the most successful businesses for profit, employment creation, wages and growth are those that innovate and develop their own unique products and processes. Firms that are involved in R&D employ people across a greater range of skills and abilities and on average pay higher wages than firms that are driven entirely by process, such as the manufacturing sectors. Promoting innovation and R&D in addition to developing worker skills are key to planning for the future of the economy.

What is missing in the economy are new businesses that will grow by developing new products and processes. This means being able to take a project from conception, through research, design, testing, developing a production process and finally a marketing strategy for the product. We need to build an innovation environment that ensures businesses have equal access to information on research and development processes whether they are a fledgling micro or social economy enterprise or a growing SME.

Creating access to and information on R&D is only one part of a process of creating an innovation environment. It also requires other integrated and coherent policy responses around funding and taxation, a clear role for second and third level educational institutions, and support for the creation of clusters and networks between similar businesses on the island.

Supporting Specific Product or Process Research

Specific product or process research is carried out to meet the particular needs of a company. There is huge scope for increased activity in this area, particularly in indigenous enterprises, in a mix from low to high technology areas and across a range of sectors such as the development of 3G applications for mobile phones, new enhanced wireless communication

technologies that can be packaged as new products, food products, packaging, furniture, and products and processes in the plastics and energy industries.

Supporting R&D Within Educational Institutions

Third level educational institutions have a crucial role to play in creating an innovation environment by both hosting research projects and providing suitably qualified graduates.

Though greater numbers of students with third level qualifications are coming into the workforce there are still serious social and geographical inequalities. There are also concerns around gaps in the current spread of third level disciplines and the mismatch between courses taught and the employment needs of the economy. We need an innovative policy that encourages student participation in secondary level science and mathematics as well as postgraduate research to increase the potential pool of future researchers. It should also promote affirmative action and give state scholarships to the best students, including those from overseas, to ensure that we can get ahead in R&D and innovation.

One of the noticeable differences between Irish third level institutions and those in Britain and North America are the lack of research funds held within colleges and universities. Such funds usually come, in the main, from private sector companies who have a vested interest in the direction of research activity. In Ireland, by contrast, there are few links between business and the research activities of third level institutions. InterTadeIreland's "Fusion Project", which gives companies access to the expertise and facilities in universities and colleges across Ireland, is one attempt to bridge this gap.

The policy challenge is not only to make more R&D funding available but to co-ordinate R&D in universities and colleges with the needs of business without diluting the integrity or compromising the independence of academic work. While Sinn Féin accepts the need for some research to be business-driven we are also of the view that stand-alone, independent research is a vital element within universities and colleges. A mix of research activity throughout third level educational sector is, in our opinion, the best option.

Support for Clustering

Clustering is where firms gather, usually geographically (but not necessarily so) and their combined activities create a critical mass that brings extra revenue and profitability to the firms involved. It is a feature of practically every market. Shopping malls and retail parks are examples of clustering at work.

A research cluster is where a group of firms create a method for knowledge-sharing. It could be that they are geographically proximate, in the same industrial or science park, which is quite common with the new technologies, or that they are in the same city or region.

Clustering is considered a crucial part of economic development in the new economy activities like biotechnology and the information and communication technology (ICT) sectors. Providing support for technology based clustering is also a potential way to break out of the low ranking in R&D activity levels.

Clusters are important for developing R&D and enterprise because:

- they create a knowledge bank of people, products and processes (this can be attractive for international firms thinking of setting up in Ireland)
- they allow small and new firms to collaborate to grow markets and develop products (each of these firms will then develop different parts of the process, as in the examples of BioIreland and Expertise Ireland)

Most clusters also need to have links to an educational institution as this not only provides graduates and certification processes for work done but it also provides access to college facilities. This is the case with the Digital Hub's links with Trinity College, and the Dundalk, Waterford and Letterkenny Institutes of Technology, which have all developed similar links with local clusters. Magee College in Derry set up its own incubator centre on-site and has had some success in company development. A Derry/Letterkenny ICT cluster is also in the pipeline.

However, clustering should not be limited to inter-firm and third level contacts. It should also involve making positive links between firms and the host communities they operate in. The education projects currently being run in Dublin's Liberties is an excellent example of such a three-tiered cluster between firms, third level institutions and the local community.

Support for Networking

Networking is where firms open a line of communication and share knowledge and understanding in some form of commercial relationship. In the enterprise context it is usually buyer-supplier and company to company.

Networking is important because it provides links to others businesses or people who have the expertise, knowledge and the goodwill to help overcome a problem or barrier to growth, whether the issue is strategic, people or business process-related.

Business networking in Ireland usually happens through trade associations or chambers of commerce, but it can also happen through procurement networks, trade fairs or export partnerships.

The enterprise development agencies on the island have a positive role to play as a broker between firms, ensuring the maintenance of adequate standards, and that the networking planned is the best use of available resources.

Funding and Tax Incentives

Currently, Government grants and tax write-offs are the main means of funding for R&D, and most R&D activity is therefore centrally controlled by government.

A recent analysis by UCC researchers found that although the Irish Government had allocated €599 million to develop R&D activities through bodies like Science Foundation Ireland the return to the economy so far was disappointing.

The 2002 Skilbeck Report also highlighted a lack of contact between the public sector, third level colleges and industry. Almost 70% of high-technology businesses never have contact with either third level institutions or state development agencies like Science Foundation

Ireland. So in many cases firms are innovating and developing without any state aid or contact with third level colleges. It is also the case that firms interact regularly internationally but there is very little local contact between them within Ireland. This situation speaks to a failure on the part of Government to provide adequate direction and support.

Solving the R&D problems in the economy is a substantial project. It needs a long term political commitment to supply resources and leadership. Similarly it needs long term buy-in and cooperation from the relevant partners such as third level institutions, the EDAs and companies themselves.

Considerable funding will have to be invested by both government and the private sector with little visible return in the short term, and the possibility of failure. However, if risks are not taken now to develop a long term sustainable innovation environment there can be no guarantee of future economic growth on the island of Ireland – or even the prevention of decline.

We therefore need to create a critical mass of innovative activity that puts research at the centre of all enterprise throughout Ireland both in the public and private sectors.

The EDAs have a critical role to play in this. Despite having substantial personnel and resources invested in encouraging R&D there are mixed results. While there are some successes the majority of firms still do not have an R&D or innovation focus. Furthermore the vast majority of VAT registered firms on the island are not clients of any of the existing EDAs. This is clearly a serious weakness both for the EDAs and for the promotion of R&D. Sinn Féin is therefore proposing a time-limited review of the R&D activities of the EDAs to ascertain the systems failures within the agencies and within their client companies regarding innovation and research.

Effective funding of R&D is a complex process made more difficult by increasingly restrictive EU rules on state aid. Given the low rate of R&D activity, the case should be made for a derogation allowing EDAs to grant aid R&D and innovation in client firms. Sinn Féin is also proposing an R&D based tax relief or allowance which could provide substantial sums for investment in both the third level and the private sectors without infringing EU restrictions on state aid.

In providing economies of scale and a critical mass of expertise in particular areas, it also makes sense to work on an all-Ireland basis. Sinn Féin is therefore proposing the development of an all-Ireland R&D strategy to maximise this potential.

Sinn Féin proposes:

- Close monitoring of the number of new companies created, the number and quality of jobs created and the number of patents registered on an all-Ireland basis.
- Adoption of an All-Ireland R&D Strategy, co-ordinated through the EDAs, central and local government, business, trade unions and educational institutions. This should be under the aegis of the All-Ireland Ministerial Council and InterTradeIreland.
- Reconfiguration of the EDAs to allow local authorities to participate in strategic investment decisions regarding local and regional business development through funding R&D.

- Incentives to firms to encourage R&D through matching grants to a firm's investment or a tax break for R&D investment. Indigenous firms would be treated preferentially in this area.
- A programme of extra assistance to SMEs, SEEs and new businesses to develop business plans for R&D.
- Grants for R&D activity allowing greater flexibility to institutes, researchers and clusters.
- Adoption of an All-Ireland Clustering Strategy that targets both the new emerging technologies that could be the employment centres of the future as well as cementing the potential in existing economic sectors such as financial services, agriculture and food processing. Such a strategy would take account of the existing regional imbalances in the island economy and seek ways to promote clustering in the economically marginalised communities and regions on the island.
- The creation of a National Clustering Fund and facility run on an all-Ireland basis from which industry and third level colleges who form clustering partnerships can draw down funds and other aids as required.
- Extra funding to develop clusters in the more underdeveloped and disadvantaged areas.
- Human rights-proofing of all R&D investment – in particular to ensure that no funding will support the development of companies manufacturing weapons, weapons systems or dual use material. This requirement to demilitarise the Irish economy is fully consistent with Sinn Féin's broader commitment to demilitarisation.

Social Democratic and Labour Party



SDLP Submission to the Committee on Preparation for Government Economic Subgroup on the Ingredients of a Peace Dividend

September 2006

The Ingredients of an Economic Peace Dividend: an SDLP paper for consideration

The SDLP believes the unique circumstances and history of Northern Ireland merit particular consideration and support in terms of rebuilding our society and our economy. With the budget heavily skewed towards security spending over several decades, our economy is suffering both the direct consequences of the conflict and the indirect consequences of the infrastructure deficit, amongst other challenges.

The focus of these proposals is on leveraging additional support and ‘head-room’ from the Treasury to enable significant capital investment in hard and soft infrastructure whilst protecting our hard-pressed householders and businesses from undue additional costs and protecting our capacity to maintain and enhance public service delivery, on which our future also depends.

This paper does not constitute an exhaustive or final list of the issues we would like to address. We believe, in any case, that the sub-committee must not just focus on agreeing the priorities of the parties but, more importantly work on the development of an agreed approach and negotiating position to secure the best possible response from the Treasury. We need to address the possible counter-arguments the Treasury might put to our proposals, the ‘strings’ that might come with any deal. We need, for example to ensure that we retain discretion and retention on assets sales so that such details do not negate any potential benefits offered.

The SDLP acknowledges the point made by successive direct-rule Ministers about the need to rebalance our economy – it is a point made regularly by the parties in Northern Ireland and the social partners. We also believe, however, that this can only happen in the context of positive investment in the growth of the private sector, not by means of an attack on the public sector.

We are seeking long-term strategic capital investment even if the funds are ring-fenced for such purposes. We are also seeking the fiscal latitude to adjust taxes affecting our competitiveness and inhibiting the growth of our private sector. If government is serious about promoting

growth, they must also be serious about tackling the barriers to growth enabling us to protect and nurture that growth.

While there are now more people in employee jobs than ever on record, our economy remains too heavily reliant on public sector employment. Recent years have seen major job losses in manufacturing, rising business costs and increasing global competition.

The SDLP wants to see investment in R&D and in promoting a culture of entrepreneurship. Investment is also required to address the barriers to business growth and to incentivise innovation and competition.

We must also tackle poverty and disadvantage. Deprivation indicators highlight the range of challenges facing our community and the imbalance in opportunities across the North. With a dispersed, rural population we inevitably face higher unit costs for public services for example. The SDLP believes that equality of opportunity requires investment as of right, although it yields economic and social dividends that far outweigh such investment.

With significant investment in our infrastructure and in our people and a step-change in levels of co-operation with the Republic, our nearest and highly successful neighbour, we believe we can grow a prosperous economy and an inclusive society.

Infrastructure and balanced regional development

- **Major investment in roads, rail and public transport across the North, targeting areas** of under-development to deliver long-term growth in public transport, particularly in disadvantaged areas, rural areas and congested urban centres. A step-change in funding is required to effect a long-term shift from private to public transport usage. There is a need to fast-track the commitments already made e.g. the 2015 deadline for the upgrading of the Belfast-Derry road must be brought forward. There is a resulting requirement to build capacity to ensure that projects can be taken forward more quickly.
- Secure major and co-ordinated investment in the **North-South rail network** particularly the Dublin/Belfast and Belfast/Derry rail routes with extensions to the Donegal and North West corridor, extending and integrating the transport services offered, to increase viability and sustainability.
- Create an **all-Ireland transport and infrastructure body** to produce a strategic development framework for the island, networking air and sea ports and economic corridors and co-ordinating key projects such as the construction of TENS .
- Integrate the **National Spatial Strategy and the Regional Development Strategy**, building on the work of the newly established International Centre for Local and Regional Development, the result of a North-South-US partnership. It is vitally important that both governments **invest the required resources** to implement the recommendations of the ICLRD Report in order to co-ordinate and support the creation of sustainable and balanced economic, commercial and employment opportunities.

- **Investment to implement the Regional Transportation Strategy** and the three associated sub-plans
- **Further invest in renewable energy** to make Northern Ireland a global leader in green energy and support research to bring to commercial viability potential sources such as hydro-electric power, so that all areas can benefit from enhanced competition, choice and security of supply. Northern Ireland should agree a challenging target with the South to reduce reliance on fossil fuels dramatically over the next 20 years.
- Extend energy efficiency programmes and support measures to **eradicate fuel poverty**.
- **Make good the under-investment in water and sewerage infrastructure** over several decades and to meet modern environmental and EU standards. Northern Ireland householders should not be asked to pay for decades of under-investment on top of service charges.

Creating jobs

- **Introduce tax relief and rate relief** on an offset basis against spending on **Research & Development, training and marketing and cross-border business development** initiatives.
- Create a new “**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. The Fund should build on the successful Enterprise Ireland model.
- Establish a **menu of reliefs** for businesses facing the end of **industrial de-rating**. We must acknowledge the impact on manufacturing of high energy costs and increasing global economic competition added to the particular demands of certain businesses in terms of high energy usage or spatial requirements.
- **Invest in a North-South strategy** to maximise overseas investment, building on the success of recent trade mission to India.
- **Implement the IBEC-CBI Joint Business Council’s 20 Key Actions for economic co-operation and international competitiveness.**
- Establish an **all-Ireland research fund** to develop capacity in target sectors and help maximise the commercial potential of research as quickly as possible. The Georgia Research Alliance model in the US should be adapted for this purpose, linking HE institutions with business to provide a ‘mix-and-match’ service.
- An all-Ireland SPUR (Special Programme for University Research) should be funded under the auspices of the all-Ireland research fund, to match public and private funding to promote innovation and commercial development of research.
- **Release under-utilised public land and assets** and secure further release of **military bases** to generate both economic and social dividends for the whole community.

- **Invest in the Tourism industry** as a key growth sector for development. Specifically, improvements are required in access routes to the North as well as staff training and marketing. The re-opening of the Ulster Canal should be brought forward as a flagship project.
- **Enable and properly fund FE colleges and training schemes** to ensure that young – and not so young – people are equipped with relevant and respected skills for the modern workplace through authentic and robust technical and vocational training.

Create a number of all-Ireland funds:

- **Strategic Capital Funds:** to support infrastructure and capital spending. Each jurisdiction would contribute to dedicated North-South funds for part of such spending, taking account of regional imbalance. The funds would be deployed through joint planning & spending to achieve shared benefits.
- **Services, Community & Enterprise Funds:** to fund programmes and services rather than capital investment and to help counter the fall-off in EU funding. They could further provide enterprise support through appropriate measures on both a sub-regional and national basis.
- **Common Fiscal Platform:** created through fiscal latitude, e.g. corporation tax (see below), tax concessions. These could be applied to particular geographic areas or economic sectors (e.g. for companies straddling the border, a facility to nominate one administration to deal with). Northern Ireland needs to have the fiscal latitude to adjust taxes affecting our competitiveness and inhibiting the growth of the private sector.
- **Create a single all-Ireland corporation tax regime at 12.5%** - such an investment in our economy would pay for itself in returns to the Treasury within 10 years.

Establish British-Irish funds, open to the different administrations on the island to enable them to come together to promote innovation and support pilot-projects.

‘Soft Infrastructure’ and barriers to growth

- **Capital investment in health and education** is essential is in the interests of the economy and overdue, again, as a consequence of the conflict. Again opportunities should be sought to maximise the benefits of investment through co-operation on a North-South on the basis of shared use of specialist facilities.
- With growing waiting lists for **public or social housing**, rapidly diminishing stock and severe pressures on **first-time buyers**, there is a need for a major investment in social housing programmes, targeted at areas with particular shortages. Housing policy has, of course, major workforce implications.
- **Develop accessible and affordable childcare and support integrated early years care** incorporating the full range of services including breakfast clubs, educational provision, child care and after school clubs, family support services, health care and more.
- **Enhance quality and availability of programmes** that address the **skills of the unemployed and economically inactive** and build on the work of the **Taskforce on Employability and Long Term Unemployment**.

- Secure **additional financial support to widen access** to education, targeting families on lower incomes.
- Dedicate **specific extra funding for mature students, students with disabilities & students with dependants**.

SDLP, September 2006

Ulster Unionist Party

Preliminary position paper on an economic package

Ulster Unionist Party

Opening Comments

The Ulster Unionist Party is committed to working for a stable and peaceful Northern Ireland within the Union, building a competitive and growing economy and a fair and decent society, and ensuring the sustainability of our environment. To realise these goals, in conjunction with a political settlement that restores devolution and thus accountable regional government to this part of the United Kingdom, we are convinced that an economic package providing generous investment in Northern Ireland's economic infrastructure and social fabric is a fundamental necessity.

General Principles

In view of the nature of the challenges facing our society and economy, the UUP is fully aware that an economic package alone will not be sufficient to ensure economic competitiveness and social cohesion. However, we are convinced that it is a necessary condition for substantial economic and social progress. The post Second World War Marshall Plan contributed to French, German, Italian etc. recovery but it did not cause it.

As noted in the UUP's earlier submission to the Economy Sub-Group, a competitive tax regime could have the potential to contribute towards the ability of the Northern Ireland economy to attract inward investment. The case for fiscal incentives is well-established, and requires consideration in parallel with discussion of a necessary investment package.

It is essential that an economic package be designed and invested in such a manner as to promote sustainable development. Promoting the quality of life of all in Northern Ireland while safeguarding and securing the quality of life of future generations must be integral to any investment package. To this end, infrastructure investment in particular should enable Northern Ireland to fulfil its environmental obligations, recognising that both future economic competitiveness and social cohesion will be at least partly dependent upon our ability to discharge our responsibilities to the environment.

Economic competitiveness (towards a step change with the aim of doubling Northern Ireland rates of economic growth), social cohesion and sustainable development – these should be the objectives of an economic package for Northern Ireland. Investment in skills investment

(with particular emphasis on the skills necessary for a regional knowledge-based economy), infrastructure and social cohesion should therefore be the focus of the package.

Investment in Skills

Adult essential skills – there are 250,000 adults in Northern Ireland lacking proficiency in basic literacy and numeracy skills. Government policies to date have only addressed the needs of approximately 25,000. Addressing this state of affairs is a prerequisite to growing our economy and promoting social inclusion. We note that the Federation of Small Businesses has defined it has to be a “priority” if we are “to ensure that our economy can reach its potential”.

Expansion of available higher education places within Northern Ireland – global experience has shown that the emergence of regional knowledge-based economies is dependent on high quality universities and expanded access to higher education. In this context, the continued substantial flow of Northern Ireland students to universities elsewhere in the United Kingdom is a matter of serious concern. There are therefore strong economic arguments for a package investing in an increase in the number of higher education places in Northern Ireland, particularly with regards to those disciplines and subjects of greatest significance to a knowledge-based economy. Alongside Northern Ireland’s universities, there would be a role for the Further Education sector in providing increased access within Northern Ireland to higher education.

Public investment in R&D – public investment in the science base (public sector funding for universities and institutes) in Northern Ireland presently stands at £29 per head – or £106m per annum. This compares very unfavourably with Wales at £37, England at £75 and Scotland at £88. Unlike the rest of the UK, there are no Research Council Institutes in Northern Ireland. An economic investment package should seek to dramatically increase this public investment. Building capacity through research funds and the creation of a Knowledge Bank to aid in technology transfer should accompany such increased public investment in the science base.

Public health investment – Northern Ireland’s very high rates of economic inactivity are related to our region’s poor health. Sadly, we are so often at the bottom of the league with respect to so many indicators. In addition to the cost to the economy, such rates of ill-health also have the very real potential of making demands on the NHS unsustainable. Mental ill-health has been estimated to cost the Northern Ireland economy £789m per annum. Obesity (related to diabetes, cardio-vascular disease and strokes) costs the economy an estimated £743m, with the cost to the NHS in Northern Ireland being £286m. Increasing economic productivity and reducing health inequalities require an economic package to provide investment for public health infrastructure and programmes to radically address the poor state of our region’s health.

Investment in Infrastructure

Investment in Northern Ireland’s rail network – our society’s quality of life, carbon footprint and our economy’s productivity are all negatively impacted by the congestion on our roads.

Congestion is a key constraint on economic growth. The creation of a Belfast Area Rapid Transport system, and the upgrading of services in key network routes throughout Northern Ireland would assist in ensuring that the region possesses a rail network that contributed towards sustainable economic growth.

Investment in Northern Ireland's water and sewerage infrastructure – the cost of fulfilling Northern Ireland's environmental obligations with regards to our water and sewerage infrastructure is a key part of the estimated £3billion capital investment required over the next 20 years. The cost associated with metering of domestic property has been estimated to be £120m. An economic package should make substantial contribute to both these projects, in the interests of sustainable development, environmental stewardship and social justice.

Investment in energy efficiency measures - The Carbon Trust has estimated the potential savings to Northern Ireland businesses of investment in energy conservation measures and technologies to be £15m per annum, with a total implementation cost of £36m. There is a strong argument – on both economic competitiveness and environmental grounds – for such measures to be included in an economic package.

Investment in Social Cohesion

Special needs education – the provision of educational opportunity and support services (such as speech and language therapy) to school-age children and young people in Northern Ireland with special educational needs is an important aspect of a social cohesion agenda. Investment to ensure (throughout Northern Ireland) a high quality educational experience and access to allied support services is fundamental to guaranteeing opportunity and inclusion for children with special needs and their families.

Literacy and numeracy in primary education – the NIAO has reported that 23% of children at Key Stage II have under-developed literacy skills and 21% have under-developed numeracy skills. This results in struggles with the demands of post-primary educations and thus educational under-achievement. In order to address Northern Ireland's weaknesses in essential skills at source, an economic package should provide investment for a more ambitious, better resourced and targeted strategy for the promotion of literacy and numeracy in primary education.

IT literacy – widespread proficiency in IT skills is a prerequisite for a regional knowledge-based economy. Infrastructure and capacity to ensure that the pursuit of high standards of digital literacy is mainstreamed in both primary and post-primary education should be supported by an economic package. Such an approach has the potential of overcoming Northern Ireland's digital divide (a divide influenced both by geography and socio-economic background).

Free personal care for the elderly – according to a recent Help the Aged survey, 62% of 45-65 year olds have made no financial provision for the cost of care in later life. The social and economic consequences of this for both society and government in Northern Ireland will obviously be significant. The provision of state-funded free personal care as part of an economic package would enable a devolved Executive to introduce such a policy and prepare

to budget for such provision in subsequent decades, securing the welfare and dignity of older citizens essential for social cohesion.

Conclusion

As stated at the outset, it is the view of the UUP that Northern Ireland's economic infrastructure and social fabric requires substantial and generous investment if the transition to normality and political stability is to have the necessary support of economic growth and social cohesion. It should, therefore, be self-evident that any such economic package must be additional to the Northern Ireland budget. Some of the package may in a sense have to be used to pay for some of the incentives (one possibility is the use of the £ 30 m. p.a. of "Pearson money" (the industrial electricity price reduction which has never happened) to freeze the increase in manufacturing rating). We note, in terms of the SIB, the Investment Strategy and PPPs, that Northern Ireland is gradually building up what will become an increasingly onerous "mortgage" spread over the next 25 years. If additional monies can be secured some of this could be used to control this growth in public sector debt.

This preliminary position paper outlines key investments which the UUP believes would assist in delivering the skills, infrastructure, social cohesion and sustainable development that will enable Northern Ireland to flourish as a dynamic economy and a fair society within the United Kingdom.

Appendix 4

Other Papers

Other Papers

Terms of Reference on Appointment of Economists

Sub-Group on the Economic Challenges facing The Economy

Draft Terms of Reference for Specialist Economic Adviser(S)

The sub-group to consider the economic challenges facing Northern Ireland was established by the Preparation for Government Committee (PfG) following a direction by the Secretary of State for Northern Ireland, The Rt Hon Peter Hain MP on 3 July 2006. The sub-group's original terms of reference were as follows:

Sub-group 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 package/peace dividend could contribute to economic regeneration and how this might be delivered.

To report to the Committee on the Preparation for Government by 25 August 2006.

1. The Preparation for Government Committee has approved the report subject to minor editorial amendments and has adopted the report as its First Report on the Economic Challenges Facing Northern Ireland. The report will be debated in the Assembly on 11-12 September 2006. The report will be available on the Assembly web site after the debate starts at 2.00pm on 11 September.
2. Further to agreeing our report, PfG also agreed new terms of reference for the 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 the 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.
3. PfG has set two deadlines:
- Report on the economic package by 4 October 2006 and
 - Report on the other areas by 23 October 2006

Membership

4. The sub-group has 10 members nominated by the Preparation for Government Committee (PfG) comprising of 2 representatives from the Alliance Party, DUP, SDLP, SF and the UUPAG. One of the 2 party representatives must be drawn from PfG but substitutes may attend for either representative. The nominated members of the sub-group since its first meeting on 20 July 2006 has been as follows:

Nominated members:

David Ford (Alliance Party)	Margaret Ritchie (SDLP)
Sean Neeson (Alliance Party)	Michelle Gildernew MP (SF)
Ian Paisley Jnr (DUP)	Mitchel McLaughlin (SF)
Peter Weir (DUP)	Dr. Esmond Birnie (UUPAG)
Dr. Alasdair McDonnell MP (SDLP)	David McNarry (UUPAG)

Contract Objectives and Timeframe

5. The objective of the contract tender is to recruit 2 qualified economists with the appropriate experience to advise and support the sub-group in its consideration of the evidence and the issues relevant to its revised terms of reference. The economists will provide substantive input to the sub-group's reports ensuring that the reports reflect the evidence and enable the sub-group to effectively deliver on its terms of reference through sound conclusions and recommendations to the Preparation for Government Committee.
6. The sub-group recognises that the views of economists may differ on the options for best addressing the challenges facing the economy and wish to employ two economic advisors to ensure a balanced perspective. The advisors will be expected to work as a team to provide coherent advice, reflecting a full consideration of the merits of each option. The sub-group will only consider a tender proposal from 2 appropriately qualified and experienced economists.
7. The sub-group commenced work on its revised terms of reference on 7 September 2006, and is working to extremely tight deadlines. It is essential therefore that potential service providers are available to commence working with the sub-group by 14 September 2006. The duration of the contracts will be for 6 weeks concluding on 23 October; the deadline for the second report.
8. It is expected that the total full-day work commitment from 2 service providers would be approximately 12 days. The apportionment of the 12 days between the two service providers will be agreed in discussion with the sub-group when the contract commences.

Role of the Economic Adviser(s):

9. To support the sub-group in its consideration of the evidence and to provide advice and analysis on the evidence and the potential options available to the sub-group for inclusion as recommendations and conclusions in its reports to PfG.
10. To provide substantive inputs to the reports based on an analysis of the evidence, relevant research papers and the views of the political parties. The detailed outputs and timetable are as follows:
 - A full written analysis of the evidence and conclusions/recommendations from the sub-group's first report presented for the sub-group in advance of its meeting on 21 September 2006;
 - Attendance by one economic advisor at each sub-group meeting to provide advice and to facilitate the sub-group's consideration of the evidence leading to agreed conclusions and recommendations for inclusion in the 2 reports (all-day meetings are currently scheduled for consecutive Thursdays – 14, 21, 28 September and 5, 12 and 19 October 2006);
 - Substantive written input to each of the reports by 25 September on the economic package report and 12 October on the fiscal measures and education and skills report;
 - Written reports and advice supported by oral presentations as required by the sub-group;
 - Provision of detailed financial and economic projections in support of the conclusions and recommendations presented to the sub-group for inclusion in its reports;
 - Researched advice on best practice elsewhere on education and skills provision that effectively meets the needs of business and the economy; and
 - Advice to the sub-group on potential witnesses relevant to its terms of reference.

Qualifications and Experience

11. The economic advisors must have a primary degree in economics or a related subject and preferably a postgraduate qualification in a related and relevant field.
12. The advisors must demonstrate that they have at least 5 years relevant experience in academic teaching in a higher education environment or relevant consultancy experience on economic matters. A full CV must be submitted with tender applications demonstrating that the candidates have relevant and extensive experience related to the sub-group's terms of reference.
13. Experience of providing advice to both the public and private sectors and to political representatives is desirable and detailed examples of this should be included in the submission.

Costs

14. A total budget of £5k excluding VAT and expenses is available for this project. Details of how this budget would be apportioned between the two advisors must be included in the submission.

Timetable

15. In view of the tight deadlines set by the Preparation for Government Committee for the sub-group to report, a restricted period has been set for responses to this tender. Responses must be submitted by 12. September 2006. The successful candidates will be advised by 13 September and will be expected to attend the next sub-group meeting on 14 September in room 135 Parliament Buildings.

Responding to this tender

16. Please return your proposal to Alan Patterson, Principle Clerk to the sub-group, Room 414, Parliament Buildings, Belfast, BT4 3XX by 17.00hrs on 12 September 2006. In the circumstances responses may be sent by email to alan.patterson@niassembly.gov.uk.
17. Your response must address your experience and proposals for all of the areas identified above and should include relevant references for this work. It must not be simply a CV although this can be included as further information. You should also detail, although not in great detail, all other areas that you consider relevant to this commission.
18. Your response should also detail the cover you are able to provide for Professional Indemnity for this commission. Any respondents that have a real or potential conflict of interest must declare this. The sub-group will consider whether any stated conflict of interest is acceptable or not. All respondents must make a statement about any conflicts of interest even should this be a nil return.
19. In providing your costs please provide a total cost figure including number of days. These should also be broken down by each individual involved i.e. number of days expected input, by individual, and associated costs.
20. Any queries about this tender should be addressed to Alan Patterson on 028 90 521785 or Shane McAteer on 028 90 521843

8 September 2006

Judgment in the case of the Portuguese Republic -v- Commission of the European Communities

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Judgment of the Court (Grand Chamber)

6 September 2006 (*)

(Action for annulment – State aid – Decision 2003/442/EC – Tax measures adopted by a regional or local authority – Reductions on the rate of income tax for natural and legal persons having their tax residence in the Azores – Classification as State aid – Selective nature – Justification by the nature and overall structure of the tax system – Obligation to state reasons – Compatibility with the common market)

In Case C-88/03,

ACTION for annulment under Article 230 EC, brought on 24 February 2003,

Portuguese Republic, represented by L. Fernandes, acting as Agent, and J. da Cruz Vilaça and L. Romão, advogados, with an address for service in Luxembourg,

applicant,

supported by

Kingdom of Spain, represented by N. Díaz Abad, acting as Agent, with an address for service in Luxembourg,

and

United Kingdom of Great Britain and Northern Ireland, represented by R. Caudwell, acting as Agent, and D. Anderson QC, with an address for service in Luxembourg,

interveners,

v

Commission of the European Communities, represented by V. Di Bucci and F. de Sousa Fialho, acting as Agents, with an address for service in Luxembourg,

defendant,

THE COURT (Grand Chamber),

composed of V. Skouris, President, P. Jann, C.W.A. Timmermans, A. Rosas (Rapporteur) and J. Malenovský, Presidents of Chambers Puissochet, R. Schintgen, N. Colneric, S. von Bahr, J. Klučka and U. Lõhmus, Judges,

Advocate General: L.A. Geelhoed,

Registrar: M. Ferreira, Principal Administrator,

having regard to the written procedure and further to the hearing on 6 September 2005,

after hearing the Opinion of the Advocate General at the sitting on 20 October 2005,

gives the following

Judgment

- 1 By its application, the Portuguese Republic seeks the annulment of Commission Decision 2003/442/EC of 11 December 2002 on the part of the scheme adapting the national tax system to the specific characteristics of the Autonomous Region of the Azores which concerns reductions in the rates of income and corporation tax (OJ 2003 L 150, p. 52) ('the contested decision').

Legal background

Community law

- 2 Article 87(1) EC states:

'Save as otherwise provided in this Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market'.

- 3 The Commission Notice of 10 December 1998 on the application of the State aid rules to measures relating to direct business taxation (OJ 1998 C 384, p. 3) ('the Notice on State aid in the field of direct taxation') states, in paragraph 2, that it proposes to provide clarification on the classification of aid under Article 87(1) EC in the case of tax measures.
- 4 Article 87(3) EC provides that the following may be regarded as compatible with the common market:

‘(a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious under-employment;

...

(c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

...’.

5 Article 299(2) EC states that the provisions of the Treaty apply to the French overseas departments, the Azores, Madeira and the Canary Islands. However, the Community legislature may adopt specific measures aimed, in particular, at laying down the conditions for the application of the Treaty to those regions, given that their economic situation and social structure are adversely affected by a number of factors, the permanence and combination of which severely restrict their development.

6 Under Paragraph 4.15 of the Commission Guidelines on national regional aid (OJ 1998 C 74, p. 9), as amended on 9 September 2000 (OJ 2000 C 258, p. 5) (‘the Guidelines on national regional aid’), regional aid aimed at reducing an undertaking’s current expenses, namely operating aid, is prohibited.

7 However, under Paragraph 4.16.2 of the Guidelines, in the outermost regions qualifying for exemption under Article 87(3)(a) and (c) EC, aid which is not both progressively reduced and limited in time may be authorised in so far as it is intended to offset the additional costs arising in the pursuit of economic activity from the factors identified in Article 299(2) EC, the permanence and combination of which severely restrain the development of such regions. That provision also states that it is the task of the Member State to determine the amount of the additional costs and to prove that such costs are linked to those factors. Furthermore, the proposed aid must be justified in terms of its contribution to regional development, and its nature and level must be proportional to the additional costs it is intended to offset.

National legislation

8 The Constitution of the Portuguese Republic of 2 April 1976 provides that ‘the Azores and Madeira archipelagos shall be autonomous regions with their own political and administrative statutes and self-government institutions’. In that connection, it provides for a series of provisions regulating the powers, functions and areas of competence of those regions and their respective political and administrative institutions.

9 It is clear from those provisions that the autonomous regions have their own tax revenue as well as part of the State tax revenue, as established by a principle ensuring active national solidarity. Furthermore, the legislative assemblies of those regions have exclusive power under the conditions laid down by a framework law adopted by the Portuguese Republic’s National Assembly, to exercise their own fiscal competence and to adapt State taxes to regional particularities.

10 By Law No 13/98 of 24 February 1998 on the finances of the autonomous regions (lei No 13/98 de 24 de Fevereiro. Lei de Finanças das Regiões Autónomas, *Diário da República* I,

series A, No 46, of 24 February 1998, p. 746) ('Law No 13/98'), the Portuguese State defined precisely the conditions for that financial autonomy. That law sets out the principles and objectives of regional financial autonomy, provides for the finances of the autonomous regions to be coordinated with State finances, and establishes the principle of national solidarity and the obligation for the central government and the autonomous regions to cooperate.

11 As regards cooperation between the State and the autonomous regions, Article 5(1) to (3) of Law No 13/98 states, in particular:

- '1. In discharging the constitutional and statutory duty of solidarity, the State, which is to take account in this regard of the funds available and the need to ensure equal treatment for all parts of its national territory, shall contribute together with the authorities of the autonomous regions to the achievement of economic development, the correction of inequalities deriving from insularity and to economic and social convergence with the rest of Portugal and the European Union.
2. National solidarity requires, notably, in the financial sphere, budgetary transfers provided for in this Law and which must adapt continuously to the level of development of the autonomous regions and seek above all to create conditions for better financial coverage by own resources.
3. National solidarity aims to guarantee the fundamental principle of equal treatment for all Portuguese citizens and the opportunity for them to benefit from social policies defined at national level, and to contribute to economic and social convergence with the rest of Portugal and the Union ... it requires, in particular, budgetary transfers, which must be carried out in accordance with the provision of this Article.'

12 As stated in point 7 of the grounds of the contested decision, Law No 13/98 also provides that national income and corporation tax constitute revenue for the autonomous regions, under the conditions determined by that law itself. Under Article 37 of the Law, the regional legislative assemblies are authorised to reduce the rates of income and corporation tax applicable there, by up to 30% as compared to those laid down by national legislation.

The scheme specific to the Autonomous Region of the Azores

13 By Regional Legislative Decree No 2/99/A of 20 January 1999, as amended by Regional Legislative Decree No 33/99/A of 30 December 1999 ('Decree No 2/99/A'), the legislative body of the Azores Region adopted the arrangements for adapting the national tax system to the region's specific characteristics under the powers devolved to it in the matter. The decree took effect on 1 January 1999 and includes, in particular, a section concerning reductions in the rates of income and corporation tax.

14 Those reductions apply automatically to all economic operators (natural and legal persons). According to the Portuguese authorities, they are intended, inter alia, to allow undertakings in the Azores to overcome the structural handicaps resulting from their location in an insular region on the periphery of the Community. For that purpose, all persons subject to income or corporation tax in the Azores Region enjoy a reduction in the rate of personal income tax of 20% (15% for 1999) and a reduction in the rate of corporation tax of 30%. The budgetary

cost of the reductions is estimated by the Portuguese authorities, as measured by the resulting tax shortfalls, to be approximately EUR 26.25 million a year.

The contested decision

- 15 By letter of 5 January 2000, the Portuguese authorities notified the Commission of the European Communities of a scheme adapting the national tax system to the specific characteristics of the Autonomous Region of the Azores. That scheme, which was notified late in response to a request for information made by Commission staff on 7 December 1999 following the appearance of articles in the press, and which entered into force without the authorisation of the Commission, was entered in the register of non-notified aid.
- 16 Following the examination of the information sent by the Portuguese authorities, the Commission decided to initiate the procedure laid down in Article 88(2) EC, with respect to the part of the scheme concerning reductions in the rate of income tax. In the course of that procedure the Regional Government of the Åland Islands (Finland) sent observations to the Commission in support of the position of the Portuguese authorities.
- 17 At the conclusion of that procedure the Commission adopted the contested decision.
- 18 In paragraph 23 of the grounds of that decision, referring to its Notice on State aid in the field of direct taxation, the Commission sets out the criteria which define State aid for the purpose of Article 87(1) EC. The measure concerned must confer an advantage on recipients which relieves them of charges that are normally borne from their budget. Such an advantage must be granted by a Member State or through State resources, in whatever form. The measure concerned must affect competition and trade between Member States. Finally, it must be specific or selective in that it favours certain undertakings or the production of certain goods.
- 19 In paragraph 24 of the grounds of the contested decision, the Commission concludes that each of those criteria is fulfilled as regards the reduced rates of income and corporation tax in question. It takes the view, in particular, as regards the first three criteria, that:
 - ‘— [i]n so far as the tax reductions in question apply to firms ... they provide an advantage which relieves them of charges that are normally borne from their budgets,
 - granting a tax reduction involves a loss of tax revenue, which ... “is equivalent to consumption of State resources in the form of fiscal expenditure”. In so far as this principle also applies to aid granted by regional or local bodies in the Member States, the tax reductions in question are granted through State resources, i.e. resources which in the Portuguese public finance system are allotted to the Autonomous Region of the Azores,
 - the criterion of competition and trade between Member States being affected presupposes that the beneficiary of the measure pursues an economic activity, regardless of the beneficiary’s legal status or means of financing. Under settled case-law the criterion of trade being affected is met since the recipient firms carry on an economic activity involving trade between Member States In view of the extent of its sectoral scope and in so far as at least some of the firms concerned will carry on an activity involving trade between Member States, this is the case of the tax reductions under analysis’.

- 20 As regards the criterion of selectivity, the Commission cites paragraph 17 of its Notice on State aid in the field of direct taxation. According to that paragraph, the Commission's decision-making practice shows 'that only measures whose scope extends to the entire territory of the State escape the specificity criterion laid down in Article 87(1) [EC]', which 'itself qualifies as aid measures which are intended to promote the economic development of a region'. The Commission takes the view that the reductions in the tax rates concerned constitute, for firms situated in a particular region in Portugal, an advantage which other undertakings wishing to carry out similar economic operations in other areas of Portugal cannot enjoy. According to paragraph 24 of the grounds of the contested decision, those reductions thereby favour undertakings subject to tax in the Azores as compared with all other Portuguese undertakings within the terms of Article 87(1) EC.
- 21 The Commission bases that conclusion on the following reasoning, set out in paragraphs 26, 27, 31 and 33 of the grounds of the contested decision.
- 22 First, in so far as the element of selectivity in the concept of aid is based on a comparison between two groups in the same reference framework (those which benefit from the scheme and those which do not), it can only be established in relation to taxation defined as normal. According to the Commission, 'it follows both from the general scheme of the Treaty, which concerns aid granted by the State or through State resources, and from the fundamental role the central authorities of the Member States play in defining the political and economic environment in which undertakings operate, thanks to the measures they adopt, the services they provide and possibly the financial transfers they make, that the framework in which such a comparison should be made is the economy of the Member State. ... The settled practice of the Commission ... consists of classifying as aid tax schemes applicable in particular regions or territories which are favourable in comparison to the general scheme of a Member State ...'.
- 23 Second, it is not consistent with the concept of aid, which encompasses all measures which relieve charges which are normally borne from the budget of one or more undertakings, regardless of their purpose, justification, objective and the status of the public authority which establishes them or whose budget bears the charge, to submit, as the Portuguese authorities have done, that the benefits of limited territorial scope become general measures in the region concerned simply because they are established by the regional, rather than by the central, authority and that they apply throughout the territory under the region's jurisdiction. 'A distinction based solely on the body that decides the measure would remove all effectiveness from Article 87 [EC], which seeks to cover the measures concerned exclusively according to their effects on competition and Community trade ...'.
- 24 The Commission adds that 'the present decision does not concern a mechanism that would allow all local authorities of a particular level (regions, districts or others) to introduce and levy local taxes with no reference at all to national taxation. On the contrary, the case in point involves a reduction, applicable solely in the Azores, in the rate of tax established by national legislation and applicable on mainland Portugal. Under the circumstances, the measure adopted by the regional authorities clearly constitutes a derogation from the national tax system'.
- 25 Third, the reductions in the rate of income tax referred to above cannot be justified by the nature or the general scheme of the Portuguese tax system. The Commission takes the view,

in particular, that ‘in so far as these reductions do not derive from applying principles such as proportionality or progressive taxation, since on the contrary they favour firms in a specific region regardless of their financial situation, the objectives of regional development attributed to them cannot be considered to be inherent in the Portuguese tax system’.

- 26 After classifying the measures at issue as State aid, in paragraph 34 of the grounds of the contested decision, the Commission takes the view in paragraph 35 that that aid is operating aid, since it aims to overcome permanent structural handicaps resulting from the insularity of the Azores and the region’s remoteness from mainland economic centres by reducing undertakings’ current expenses. The Commission adds that such aid may be authorised if it is intended to offset the additional costs arising in the pursuit of economic activity from the handicaps identified in Article 299(2) EC, in compliance with the conditions laid down in point 4.16.2 of the Guidelines on national regional aid; specifically, it may be justified by its contribution to regional development and by its nature, and if it is of a level proportional to the additional costs it is intended to compensate.
- 27 In that connection, the Commission states, in paragraph 38 of the grounds of the contested decision, that, in so far as the reductions in the rates of income and corporation tax are applicable to ‘firms that operate outside the financial sector’, it is able to regard that aid as aid compatible with the common market under the derogation in Article 87(3)(a) EC.
- 28 On the other hand, the Commission submits that, in so far as it is applicable to undertakings which operate in the financial sector, the reduced rates of income and corporation tax are not justified by their contribution to regional development and their level is not proportional to the handicaps they are intended to alleviate. The Commission is therefore unable to consider those reductions as compatible with the common market, within the meaning of Article 87(3)(a) EC, particularly as it is still not in possession of quantified data enabling it to measure objectively the level of the additional costs facing undertakings liable for tax in the Azores operating in the financial sector. That aid is also not covered by any other derogation laid down in the Treaty.
- 29 It should be noted that, in paragraph 18 of the grounds of the contested decision, the Commission remarked on the absence of undertakings from the financial sector among those in the basic sample in the study provided by the Portuguese authorities. The Commission observed that the Portuguese authorities had simply explained such an absence by a lack of statistical data relating to those activities, while acknowledging that it was not possible for them to demonstrate rigorously in relation to such activities that the tax reductions in question were, by their nature and level, capable of resolving the specific problems of the Azores.
- 30 Furthermore, the Commission adds, in paragraph 42 of the grounds of the contested decision, that it is also appropriate, for reasons of transparency and legal certainty, to exclude from the benefit of a decision of compatibility with the common market ‘activities of the “intra-group services” type (activities the economic basis of which is to provide services to undertakings belonging to the same group, as coordination, financial or distribution centres)’. The Commission takes the view that ‘such activities do not contribute sufficiently to regional development and therefore cannot be declared compatible under Article 87(3)(a), or by virtue of other derogations laid down by the Treaty, for the same reasons indicated in relation to the financial sector’.

- 31 Accordingly, in Article 1 of the contested decision, the Commission declared the part of the scheme adapting the national tax system to the specific characteristics of the Autonomous Region of the Azores which concerns reductions in the rates of income and corporation tax to be compatible with the common market, subject to the provisions of Article 2, under which the part of the aid scheme referred to in Article 1 is incompatible with the common market in so far as it applies to undertakings that carry on financial activities and undertakings which carry on activities of the ‘intra-group services’ type. In Article 3 of the contested decision, the Commission instructed Portugal to take all the necessary measures to recover from the undertakings that carry on the activities referred to in Article 2 the aid made available under the part of the aid scheme referred to in Article 1.

Forms of order sought

- 32 By order of the President of the Court of 16 September 2003, the United Kingdom of Great Britain and Northern Ireland was granted leave to intervene in support of the Portuguese Republic.
- 33 By order of the President of the Court of 9 June 2003, the Kingdom of Spain was granted leave to intervene in support of the Portuguese Republic.
- 34 The Portuguese Republic claims that the Court should:
- declare the action admissible;
 - declare this action well-founded and, accordingly, annul the contested decision in so far as it classifies the reductions in the rates of income and corporation tax of natural and legal persons having their tax residence in the Azores as State aid
 - alternatively, and without prejudice to the foregoing, declare this action well-founded and annul in part the contested decision, in so far as it declares incompatible with the common market the reductions in the rate of tax applicable to undertakings operating in the financial sector and undertakings which carry on activities of the ‘intra-group services’ type, and in so far as Article 3 of the decision orders the Portuguese Republic to recover the amount of those reductions;
 - order the Commission to pay all the costs, including those incurred by the Portuguese Republic.
- 35 The Commission contends that the Court should:
- dismiss the action as unfounded;
 - order the Portuguese Republic to pay the costs.
- 36 The United Kingdom, intervening in support of the form of order sought by Portugal, contends that the Court should declare the action well-founded and, accordingly, annul the contested decision in so far as it classifies as State aid the reduced rates of income and corporation tax on natural and legal persons having their tax residence in the Azores.

The action

- 37 The Portuguese Government puts forward three pleas in law in support of its action. First, it submits, the contested decision is vitiated in two respects by an error of law in the application of Article 87(1) EC. Second, that decision is not sufficiently reasoned, which constitutes an infringement of Article 253 EC. Third, it is vitiated by a manifest error of assessment of the facts which influence the application of Article 87(3)(a) EC.

The first plea: error of law in the application of Article 87(1) EC**Arguments of the parties**

- 38 By its first plea, the Portuguese Government submits that the reduced rates of income and corporation tax provided for by Decree No 2/99/A for natural and legal persons established in the Azores are not selective but general measures and that, in any event, the differences in the charges operated by those reductions are justified by the nature or the structure of the Portuguese tax system.
- 39 As regards the determination of the selective nature of those measures, the Portuguese Government submits, first of all, that the Commission was wrong to take the whole of Portuguese territory as the reference framework. In order to determine whether a measure is selective in nature it is not necessary to place that measure within a national reference framework. Therefore, where tax concessions whose scope is limited to part of the country are granted by a regional or local authority of a State for the area within its jurisdiction, the reference framework must be the region concerned. Since tax concessions granted in such circumstances are applicable to all undertakings subject to tax in that region, those measures are general, not selective.
- 40 Next, the Portuguese Government points out that the reduced rates of tax result directly from the founding principles of the Portuguese tax system, in particular the principles of redistribution and national solidarity, and from the degree of autonomy of the region concerned. They are the result of the exercise of constitutional sovereignty and are inspired by the factors set out in Article 299(2) EC, namely insularity, difficult climate and the economic dependence of the Azores on a small number of products.
- 41 In any event, according to the Portuguese Government, the contested decision disregards the fact that the tax reductions concerned are justified by the nature and structure of the Portuguese tax system. It submits, in that connection, that those measures contribute to the achievement of the structural objectives of the Portuguese tax system, namely the allocation of the tax burden in accordance with ability to pay, with the aim of redistribution. It adds that objective differences exist between the taxpayers in mainland Portugal and those in the Azores. Furthermore, those two factors derive directly from the constitutional and statutory texts which lay down the founding principles of the Portuguese tax system and the principle of autonomy of the outermost regions.
- 42 According to the Commission, it is clear from the scheme of the Treaty that the selectivity of a measure must be determined by reference to the national framework. To take the region which adopted the measure as the reference framework would be to disregard the functioning and rationale of the Treaty rules on State aid. Even in the absence of substantive selectivity,

advantages reserved for undertakings operating in certain regions of a Member State are selective in nature and are therefore capable of constituting State aid. In this case, the contested tax reductions favour undertakings which are liable to tax in the Azores as compared with all other Portuguese undertakings because, in the regions of mainland Portugal, the relevant national taxes cannot be reduced by the local authorities and are therefore applicable in full, which is sufficient for a finding that the contested measure is selective in nature for the purposes of Article 87(1) EC. The fact that the tax reductions concerned were decided on by a body other than the central State is irrelevant: only the effects of the measure, and not its form, may be taken into consideration for the purposes of its classification.

- 43 The Commission considers, furthermore, that the degree of autonomy of the Autonomous Region of the Azores is in fact limited. The Portuguese State continues to play a crucial role in the definition of the economic framework within which undertakings operate. As an example, undertakings operating in the Azores are able to benefit from infrastructures financed by the central State or a social security system whose financial balance is guaranteed by it. Moreover, the reduction in tax revenue for the region concerned, which results from the reduced tax rates, is indirectly offset at budgetary level by transfers from the central State, by virtue of the principle of financial solidarity.
- 44 As regards the justification for the tax advantages deriving from the nature and general structure of the Portuguese tax system, the Commission submits that that justification may be accepted only if those advantages result from objective differences between taxpayers. That is not the case with regard to the reductions at issue since they apply to all undertakings established in the Azores, whatever their financial situation, and derive from the economic characteristics of the region, which are factors extrinsic to the tax system. The Commission states that the concept of the nature or overall structure of the system refers to the internal logic of the system of compulsory taxation and to the necessary and proportionate technical distinctions which are intended to deal with the objectively different situations to which the levy system applies, and which meet the requirement that such a system must operate in the best possible manner in all the cases covered by it.
- 45 The United Kingdom Government, intervening in support of the Portuguese Republic, concentrated its arguments on an appraisal of the selectivity criterion. Dismissing the Commission's argument that measures which do not cover all the territory of the Member State satisfy the criterion of specificity laid down in Article 87(1) EC, it argues that that criterion is sometimes not satisfied by tax measures which are adopted by devolved or autonomous regions, which apply to all the territory within their competence, and which are not sector-specific.
- 46 According to the United Kingdom Government, where, as in this case, the legislature of an autonomous region sets tax rates which apply uniformly across the region concerned but which are lower than those applied by decision of the national legislature to other parts of the Member State, the selectivity of the measure cannot be inferred simply from the fact that the other regions are subject to a different level of taxation. Depending on the circumstances, it may be appropriate to determine that selectivity in the context of the region itself and not in the context of the Member State as a whole. Such will be the case where there is a constitutional system which recognises sufficient fiscal autonomy so that a tax reduction granted by a local authority may be regarded as being decided by an autonomous or devolved region which not

only has the power to take that decision but which must also bear the financial and political consequences of it.

- 47 Therefore, the United Kingdom Government submits, before classifying regional tax rates which are lower than the national tax rate as State aid, the Commission should have had regard to the degree of autonomy of the regional or local authority that established the reduced rates taking into account a number of factors, such as the fact that jurisdiction in tax matters is part of a constitutional system conferring a significant degree of political autonomy on the region, the fact that the decision to reduce the tax rate is taken by a body elected by the population of the region or accountable to that population, and the fact that the financial consequences of that decision are borne by the region and are not offset by subsidies or contributions from other regions or from central government.
- 48 According to the United Kingdom Government, the assessment of a regional tax system for State aid purposes raises broader issues of regional autonomy of considerable constitutional importance. In particular, the United Kingdom's 'asymmetrical' constitutional system of devolution could be called into question, having regard to the position of Scotland and Northern Ireland.
- 49 The Kingdom of Spain, also intervening in support of the Portuguese Republic, emphasises that devolution, where it exists, forms part of the Member States' constitutional framework. Following the Commission's arguments would result in upsetting this constitutional structure, particularly as policy concerning direct taxation remains within the specific competence of the Member States.
- 50 In its statement in response to the United Kingdom's intervention, the Commission denies that the approach adopted in the contested decision may hinder the exercise by Scotland or Northern Ireland of the powers conferred on them in tax matters.
- 51 The Commission adds that the fact that tax reductions applicable in a particular region decided at national level and similar reductions decided by a regional authority are treated in the same way is consistent with the principle that the concept of aid is defined according to the effects of the measure on undertakings or producers, without it being necessary to take account of its causes or aims or the situation of the bodies distributing or managing the aid (Case 173/73 *Italy v Commission* [1974] ECR 709, paragraphs 27 and 28, and Case 78/76 *Steinike & Weinlig* [1977] ECR 595, paragraph 21). By contrast, the criteria proposed by the United Kingdom, according to which, 'depending on the circumstances', the framework within which the selectivity of measure is assessed is the region or the Member State as a whole is irreconcilable with that principle and would lead to legal uncertainty liable to hinder the review of State aid.

Findings of the Court

- 52 Article 87(1) EC prohibits State aid 'favouring certain undertakings or the production of certain goods', that is to say, selective aid (Case C-66/02 *Italy v Commission* [2005] ECR I-10901, paragraph 94). However, according to settled case-law, the concept of State aid does not refer to State measures which differentiate between undertakings and which are, therefore, *prima facie* selective where that differentiation arises from the nature or the overall structure of the system of charges of which they are part (see, to that effect, Case 173/73 *Italy*

v *Commission*, paragraph 33, and Case C-148/04 *Unicredito Italiano* [2005] ECR I-11137, paragraph 51).

- 53 Accordingly, it is appropriate to examine, first, whether the measures reducing the tax rates in question are selective in nature and, if necessary, to examine whether, as the Portuguese Government submits, those measures are justified by the nature and overall structure of the Portuguese tax system.
- 54 As regards the assessment of the condition of selectivity, which is a constituent factor in the concept of State aid, it is clear from settled case-law that Article 87(1) EC requires assessment of whether, under a particular statutory scheme, a State measure is such as to ‘favour certain undertakings or the production of certain goods’ in comparison with other undertakings which are in a legal and factual situation that is comparable in the light of the objective pursued by the measure in question (see, to that effect, Case C-143/99 *Adria-WienPipeline and Wietersdorfer & Peggauer Zementwerke* [2001] ECR I-8365, paragraph 41, Case C-308/01 *GIL Insurance and Others* [2004] ECR I-4777, paragraph 68, and Case C-172/03 *Heiser* [2005] ECR I-1627, paragraph 40).
- 55 Such an analysis is also required in respect of a measure adopted not by the national legislature but by an infra-State authority, since a measure adopted by a regional authority and not the central power is likely to constitute aid if the conditions laid down by Article 87(1) EC are satisfied (see, Case 248/84 *Germany v Commission* [1987] ECR 4013, paragraph 17).
- 56 It is clear from the foregoing that in order to determine whether the measure at issue is selective it is appropriate to examine whether, within the context of a particular legal system, that measure constitutes an advantage for certain undertakings in comparison with others which are in a comparable legal and factual situation. The determination of the reference framework has a particular importance in the case of tax measures, since the very existence of an advantage may be established only when compared with ‘normal’ taxation. The ‘normal’ tax rate is the rate in force in the geographical area constituting the reference framework.
- 57 In that connection, the reference framework need not necessarily be defined within the limits of the Member State concerned, so that a measure conferring an advantage in only one part of the national territory is not selective on that ground alone for the purposes of Article 87(1) EC.
- 58 It is possible that an infra-State body enjoys a legal and factual status which makes it sufficiently autonomous in relation to the central government of a Member State, with the result that, by the measures it adopts, it is that body and not the central government which plays a fundamental role in the definition of the political and economic environment in which undertakings operate. In such a case it is the area in which the infra-State body responsible for the measure exercises its powers, and not the country as a whole, that constitutes the relevant context for the assessment of whether a measure adopted by such a body favours certain undertakings in comparison with others in a comparable legal and factual situation, having regard to the objective pursued by the measure or the legal system concerned.
- 59 The Commission’s argument that such an analysis is rendered inadmissible by the wording of the Treaty and the well-established case-law in that field cannot be accepted.

- 60 It is true, as the Court has already ruled, that the fact that an aid programme has been adopted by a regional authority does not prevent the application of Article 87(1) EC if the relevant conditions are satisfied (see, to that effect, Case 248/84 *Germany v Commission*, paragraph 17). Furthermore, as the Commission stated, in paragraph 26 of the grounds of the contested decision, the text of the Treaty itself, which in Article 87(3)(a) and (c) classifies measures intended to ‘favour certain undertakings or the production of certain goods’ as State aid which may be declared compatible, indicates that benefits whose scope is limited to part of the territory of the State subject to the rules on aid may constitute selective benefits. However, it cannot be inferred from that that a measure is selective, for the purposes of Article 87(1) EC, on the sole ground that it is applicable only in a limited geographical area of a Member State.
- 61 Furthermore, it cannot be inferred from the judgment in Case C-156/98 *Germany v Commission* [2000] ECR I-6857 that a measure the benefit of which is reserved for undertakings situated in certain regions is selective for that reason alone. In paragraph 23 of that judgment the Court held that the fact that a tax concession favoured certain undertakings situated in the new Länder or West Berlin prevented its being a general measure of tax or economic policy. However, the tax concession concerned had been adopted by the national legislature and was applicable to only some of the undertakings in a number of regions in Germany, namely those employing a maximum of 250 employees and whose head office and management were situated in the new Länder or West Berlin, by way of derogation from the national system which is otherwise homogeneous.
- 62 In order to determine the selectivity of a measure adopted by an infra-State body which, like the measure at issue, seeks to establish in one part of the territory of a Member State a tax rate which is lower than the rate in force in the rest of that State it is appropriate, as stated in paragraph 58 of this judgment, to examine whether that measure was adopted by that body in the exercise of powers sufficiently autonomous vis-à-vis the central power and, if appropriate, to examine whether that measure indeed applies to all the undertakings established in or all production of goods on the territory coming within the competence of that body.
- 63 In paragraph 50 *et seq* of his Opinion, the Advocate General specifically identified three situations in which the issue of the classification as State aid of a measure seeking to establish, in a limited geographical area, tax rates lower than the rates in force nationally may arise.
- 64 In the first situation, the central government unilaterally decides that the applicable national tax rate should be reduced within a defined geographic area. The second situation corresponds to a model for distribution of tax competences in which all the local authorities at the same level (regions, districts or others) have the autonomous power to decide, within the limit of the powers conferred on them, the tax rate applicable in the territory within their competence. The Commission has recognised, as have the Portuguese and United Kingdom Governments, that a measure taken by a local authority in the second situation is not selective because it is impossible to determine a normal tax rate capable of constituting the reference framework.
- 65 In the third situation described, a regional or local authority adopts, in the exercise of sufficiently autonomous powers in relation to the central power, a tax rate lower than the national rate and which is applicable only to undertakings present in the territory within its competence.

- 66 In the latter situation, the legal framework appropriate to determine the selectivity of a tax measure may be limited to the geographical area concerned where the infra-State body, in particular on account of its status and powers, occupies a fundamental role in the definition of the political and economic environment in which the undertakings present on the territory within its competence operate.
- 67 As the Advocate General pointed out in paragraph 54 of his Opinion, in order that a decision taken in such circumstances can be regarded as having been adopted in the exercise of sufficiently autonomous powers, that decision must, first of all, have been taken by a regional or local authority which has, from a constitutional point of view, a political and administrative status separate from that of the central government. Next, it must have been adopted without the central government being able to directly intervene as regards its content. Finally, the financial consequences of a reduction of the national tax rate for undertakings in the region must not be offset by aid or subsidies from other regions or central government.
- 68 It follows that political and fiscal independence of central government which is sufficient as regards the application of Community rules on State aid presupposes, as the United Kingdom Government submitted, that the infra-State body not only has powers in the territory within its competence to adopt measures reducing the tax rate, regardless of any considerations related to the conduct of the central State, but that in addition it assumes the political and financial consequences of such a measure.
- 69 Since the Portuguese Government disputes the Commission's assessment of the selective nature of the tax reduction measures in question, it is necessary to examine whether those measures which favour undertakings liable for tax in the Azores Region fulfil the requirements set out in paragraphs 67 and 68 of this judgment.
- 70 In that connection, it must be observed that under the Constitution of the Portuguese Republic the Azores form an autonomous region with its own political and administrative status and its own self-government institutions which have the power to exercise their own fiscal competence and adapt national fiscal provisions to regional specificities in accordance with Law No 13/98 and Decree No 2/99/A.
- 71 As far as concerns economic autonomy, the Portuguese Government, in answer to the Commission's arguments that the Autonomous Region of the Azores lacks autonomy on account of compensatory financial transfers from the central State, merely observed that the Commission had not submitted any evidence on the merits of those arguments, without itself demonstrating that the Autonomous Region of the Azores does not receive any State financing to make good the fall in tax revenue which may result from reductions in the tax rates.
- 72 In that regard, it must be observed that, under Article 5(1) of Law No 13/98 and in the context of the adaptation of the national tax system to regional specificities, the constitutional principle of national solidarity was stated to mean that the central State contributes, with the autonomous regional authorities, to the achievement of economic development and the correction of inequalities deriving from insularity and to economic and social convergence with the rest of the national territory.
- 73 According to Article 32 of that Law, the application of that principle gives rise to a duty incumbent on both the central and regional authorities to promote the correction of inequalities

arising from insularity by reducing local tax burden and by an obligation to ensure an appropriate level of public services and private activities.

74 As the Portuguese Government recognises, it is as a corollary to that constitutional and legislative system that Decree No 2/99/A adapts the national tax system to regional specificities.

75 Although the reduction in tax revenue which may result, for the Azores region, from reductions in tax rates may affect the attainment of the objective, recognised by the Portuguese Government, of correcting inequalities in economic development, it is in any event offset by a financing mechanism which is centrally managed. In this case, that financing is expressly provided for in Article 5(2) of Law No 13/98 in the form of budgetary transfers.

76 It follows that the two aspects of the fiscal policy of the regional government, namely the decision to reduce the regional tax burden by exercising its power to reduce tax rates on revenue and the fulfilment of its task of correcting inequalities deriving from insularity, are inextricably linked and depend, from the financial point of view, on budgetary transfers managed by central government.

77 In that context, it must be held that the decision of the government of the Autonomous Region of the Azores to exercise its power to reduce the rates of national tax on revenue in order to allow economic operators in the region to overcome the structural disadvantages deriving from their insular situation on the periphery of the Community, was not adopted in accordance with all the requirements set out in paragraphs 67 and 68 of this judgment.

78 Accordingly, the relevant legal framework for determining the selectivity of the tax measures at issue cannot be defined exclusively within the geographical limits of the Azores region. Those measures must be assessed in relation to the whole of Portuguese territory, in the context of which they appear to be selective.

79 It follows, as the Commission rightly held in the contested decision, that the reductions in the tax rates at issue are selective and not general measures.

80 In accordance with the case-law cited in paragraph 52 of this judgment, it is therefore appropriate to examine whether the tax measures at issue may be justified by the nature or overall structure of the Portuguese tax system, a matter which it is for the Member State concerned to demonstrate.

81 A measure which creates an exception to the application of the general tax system may be justified by the nature and overall structure of the tax system if the Member State concerned can show that that measure results directly from the basic or guiding principles of its tax system. In that connection, a distinction must be made between, on the one hand, the objectives attributed to a particular tax scheme which are extrinsic to it and, on the other, the mechanisms inherent in the tax system itself which are necessary for the achievement of such objectives.

82 Measures such as those at issue, which apply to all economic operators without any distinction as to their financial circumstances, cannot be regarded as ensuring that for the purpose of redistribution the criterion of ability to pay is observed. Although it is true that the disadvantages related to the insularity of the Azores might, in principle, be suffered by all economic operators regardless of their financial circumstances, the mere fact that the regional tax

system is conceived in such a way as to ensure the correction of such inequalities does not allow the conclusion to be drawn that every tax advantage granted by the authorities of the autonomous region concerned is justified by the nature and overall structure of the national tax system. The fact of acting on the basis of a regional development or social cohesion policy is not sufficient in itself to justify a measure adopted within the framework of that policy.

83 Therefore, the Portuguese Government has not shown that the adoption by the Autonomous Region of the Azores of the measures at issue was necessary for the functioning and effectiveness of the general tax system. It simply made a general statement to that effect without providing specific evidence in support of it. It has not, therefore, been demonstrated that the measures at issue are justified by the nature or overall structure of the Portuguese tax system.

84 The Commission was therefore right to hold, in the contested decision, that the difference between the charges resulting from the tax reductions on revenue in question is not justified by the nature or the overall structure of the Portuguese tax system.

85 It follows from all of the foregoing considerations that the first plea in the action must be rejected.

The second plea: inadequate statement of reasons with respect to the existence of an adverse effect on intra-Community trade and significant restrictions on competition

Arguments of the parties

86 By its second plea the Portuguese Government argues essentially that the reasoning in the contested decision does not meet the requirements of Article 253 EC, in so far as that decision fails to set out or justify the impact on trade between Member States of the reductions of tax rates at issue or the significant effect of the distortion of competition resulting from those measures.

87 The Commission denies that contention, basing its argument, *inter alia*, on the case-law of the Court to the effect that, as regards an aid scheme of general application, it is sufficient to state that at least in respect of certain beneficiaries the measure affects trade and that the Commission is not obliged to give further details in that regard in its decisions (Case C-310/99 *Italy v Commission* [2002] ECR I-2289). In this case, the tax rate reductions apply to all economic operators liable to tax in the Azores region. Since at least some of the undertakings concerned carry on an activity involving trade between the Member States and subject to Community competition, the decision contains an adequate statement of reasons.

Findings of the Court

88 According to settled case-law, the statement of reasons required by Article 253 EC must be appropriate to the act at issue and must disclose in a clear and unequivocal fashion the reasoning followed by the institution which adopted the measure in question in such a way as to enable the persons concerned to ascertain the reasons for the measure and to enable the Court to carry out its review. It is not necessary for the reasoning to go into all the relevant facts and points of law, since the question whether the statement of reasons meets the requirements of Article 253 EC must be assessed with regard not only to its wording but also

to its context and to all the legal rules governing the matter in question (see, inter alia, Case C-56/93 *Belgium v Commission* [1996] ECR I-723, paragraph 86, Case C-278/95 P *Siemens v Commission* [1997] ECR I-2507, paragraph 17, and Case C-501/00 *Spain v Commission* [2004] ECR I-6717, paragraph 73).

- 89 Applied to the classification of a measure as aid, that principle requires a statement of the reasons for which the Commission considers that the measure concerned falls within the scope of Article 87(1) EC. In that connection, even in cases where it is clear from the circumstances under which it was granted that the aid is liable to affect trade between Member States or to distort or threaten to distort competition, the Commission must at least set out those circumstances in the statement of reasons for its decision (Case 57/86 *Greece v Commission* [1988] ECR 2855, paragraph 15, Joined Cases C-329/93, C-62/95 and C-63/95 *Germany v Commission* [1996] ECR I-5151, paragraph 52, and Case C-156/98 *Germany v Commission*, paragraph 98).
- 90 In this case, it is sufficient to observe, in that connection, that the contested decision sets out clearly and applies to the situation in this case the criteria which must be satisfied in order to constitute State aid.
- 91 As regards the assessment by the Commission of the effects of the aid on intra-Community trade, it must be held that the contested decision, in paragraph 24 of its grounds, and as indicated in paragraph 19 of this judgment, logically deduced from the characteristics of the system in question and from the general scope of the reduced rates of tax that the result of that system, since those reductions apply to all economic sectors in the Azores, is that at least some of the undertakings concerned carry on economic activities involving such trade and, therefore, trade between Member States is likely to be affected.
- 92 It follows that the second plea raised by the Portuguese Government, relating to an inadequate statement of reasons, must be rejected.

The third plea: manifest error of assessment in the application of Article 87(3)(a) EC

Arguments of the parties

- 93 By its third plea, the Portuguese Government complains that the Commission committed a manifest error of assessment in the application of Article 87(3)(a) EC in excluding from the benefit of the derogation laid down by that provision the reductions in the tax rates at issue as they apply to undertakings carrying out financial activities or activities of the ‘intra-group services’ type and in holding them incompatible with the common market in Article 2 of the contested decision.
- 94 The Portuguese Government submits, first, that activities of the ‘intra-group services’ type do not exist in the Portuguese legal system and, second, that undertakings operating in the financial sector are liable to bear the same additional costs deriving from the remoteness and insularity of the Azores Region as those which have been identified, in respect of other sectors of the economy, by a study carried out by the Centre for European Policy Studies submitted on 3 November 1999 in the context of State aid proceedings relating to the Autonomous Region of Madeira. That study sought to determine the implications of Article 299(2) EC as regards the autonomous regions of Madeira and the Azores.

- 95 The Commission denies having committed any manifest error of assessment and states first of all that it enjoys, in regard to the assessment of the compatibility of aid, a wide margin of discretion the exercise of which requires assessments of an economic and social nature.
- 96 The Commission submits, second, that the study by the Centre for European Policy Studies on which the Portuguese Government relies is not relevant for the assessment of the compatibility of the reductions of the tax rates applicable to undertakings operating in the financial sector. That study sets out the costs connected to the situation of the region concerned on the periphery of the Community, without quantifying the impact of the additional costs on the various economic sectors. Although it may legitimately be accepted that all the undertakings located in the Azores Region are confronted with the same permanent structural handicaps, arising from the insular nature of the Azores archipelago and its distance from the economic centres on the mainland, it does not follow that the impact of such handicaps on the additional costs arising from carrying on economic activities are identical in all sectors.
- 97 According to the Commission, given that the services offered are extremely mobile, the financial sector is in a different situation from other economic sectors in the Azores. For that reason, since the beginning of the proceedings, the Commission has repeatedly requested the Portuguese authorities to provide it with evidence demonstrating that the advantages conferred on the financial sector were justified. The Commission argues that, in the absence of such specific evidence, it was unable, on the basis of the documents provided by the Portuguese authorities, to regard the tax reductions applicable to undertakings operating in that sector as aid compatible with the common market under the derogation provided for in Article 87(3)(a) EC.
- 98 The Commission states once again that, if a Member State does not provide it with the information requested or provides it only with partial information, the lawfulness of its decision is to be assessed in the light of the information available when the decision was adopted (Case C-382/99 *Netherlands v Commission* [2002] ECR I-5163, paragraph 49). That principle should be applied even more rigorously in this case since the Portuguese authorities were asked on numerous occasions and the burden of proof that the advantages conferred were justified is on the Member State in accordance with point 4.16.2 of the Guidelines on national regional aid.

Findings of the Court

- 99 As a preliminary point, it must be recalled that, for the purposes of Article 87(3) EC, the Commission enjoys a wide margin of discretion, the exercise of which involves assessments of an economic and social nature which must be made within a Community context. The Court, in reviewing whether that freedom was lawfully exercised, cannot substitute its own assessment for that of the competent authority but must restrict itself to examining whether the authority's assessment is vitiated by a manifest error or misuse of powers (see, in particular, Case C-310/99 *Italy v Commission*, paragraph 45, Case C-456/00 *France v Commission* [2002] ECR I-11949, paragraph 41, and Case C-66/02 *Italy v Commission*, paragraph 135).
- 100 The Guidelines on national regional aid prohibit regional aid aimed at reducing an undertaking's current expenses, namely operating aid. However, under point 4.16.2 of the Guidelines, in the outermost regions qualifying for exemption under Article 87(3)(a) and (c) EC, operating

aid may be authorised in so far as it is intended to offset the additional costs arising in the pursuit of economic activity from the factors identified in Article 299(2) EC, the permanence and combination of which severely restrict the development of such regions.

- 101 That point of the Guidelines states that it is the task of the Member State concerned to determine the amount of those additional costs and to prove that they are linked to those factors. Such aid must be justified in terms of its contribution to regional development, and its nature; its level is to be proportional to the additional costs it is intended to offset.
- 102 It must be observed that, when it argues that the measures at issue fulfil the criteria laid down by the Guidelines not only as regards the sectors of economic activity other than the financial sector, as the Commission recognises in the contested decision, but also as regards the financial sector itself, the Portuguese Government does not dispute the terms of the Guidelines on national regional aid. The Portuguese Government challenges solely the manner in which the Commission applied those guidelines to the financial sector in the Azores region. It takes the view that it has shown that undertakings carrying on financial activities have to contend with the same additional costs arising from the geographical specificity of the region concerned as do any other undertakings located there.
- 103 As was stated in paragraph 101 of this judgment, according to the Guidelines on national regional aid, it is the task of the Member State which granted the aid to determine the amount and to prove that it is justified in terms of its contribution to regional development and that its level is proportional to the additional costs it is intended to offset. It is clear from the case-file and from paragraph 18 of the grounds of the contested decision that the Portuguese authorities were not in a position to provide such evidence in relation to the financial sector.
- 104 Although it is true that the contested decision does not state the reason why the Commission deemed it necessary to have quantified evidence with respect to the financial sector, it cannot be inferred from this that the Commission exceeded the limits of its discretion.
- 105 Therefore, by declaring the part of the aid scheme referred to in Article 1 of the contested decision to be incompatible with the common market, in so far as it applies to undertakings carrying on financial activities, the Commission did not commit a manifest error of assessment.
- 106 Furthermore, it must be observed, with regard to undertakings carrying on activities of the ‘intra-group services’ type, that, in answer to the Portuguese authorities’ argument that such activities do not currently exist in the Portuguese legal system, the Commission held, in paragraph 42 of the grounds of the contested decision, that, for reasons of transparency and legal certainty, where those activities might in practice be likely to be carried out in the context of services provided mainly to undertakings in a group, the reductions in tax rates applicable to undertakings carrying on such activities must, in the same way as undertakings in the financial sector, be excluded by law from the benefit of the derogation under Article 87(3)(a) EC. The Commission considers that, in so far as their effects on the decision as to the place of establishment by undertakings in a group and the external effect on the local economy are insignificant, such activities do not contribute sufficiently to regional development to be declared compatible in accordance with Article 87(3)(a) EC or other derogations provided by the Treaty, for the reasons already stated as regards the financial sector and regardless of whether such activities exist at a given time in the Portuguese legal

system. In the absence of any arguments by the Portuguese Government challenging those assertions, it has not been shown that a manifest error of assessment was committed in respect of such undertakings.

107 Accordingly, the third plea, alleging infringement of Article 87(3)(a) EC, must be rejected.

108 Since none of the pleas raised by the Portuguese Republic can be upheld, the action must be dismissed.

Costs

109 Under Article 69(2) of the Rules of Procedure, the unsuccessful party is to be ordered to pay the costs if they have been applied for in the successful party's pleadings. Since the Commission has applied for costs and the Portuguese Republic has been unsuccessful, the latter must be ordered to pay the costs. Pursuant to the first subparagraph of Article 69(4) of the Rules of Procedure, the Member States which have intervened in the proceedings must bear their own costs.

On those grounds, the Court (Grand Chamber) hereby

1. **Dismisses the action;**
2. **Orders the Portuguese Republic to pay the costs;**
3. **Orders the United Kingdom of Great Britain and Northern Ireland and the Kingdom of Spain to bear their own costs.**

[Signatures]

Legal advice on the scope for corporation tax variation in NI

Sub-group on the Economic Challenges Facing Northern Ireland

Room 414, Parliament Buildings

To: Members, Economic Sub-group
From: Sub-group secretariat
Date: Wednesday, 20 September 2006
Subject: Brief - for 16th Meeting, Thursday 21 September 2006 at 10.00am

1. To facilitate the sub-group's deliberations on the fiscal incentives which might form part of an economic package, legal advice was sought from Assembly legal services on the following issues:
 - (i) the implications which the recent European Court of Justice ruling on the tax scheme in the Azores might have for efforts to secure a regional variation in the level of corporation tax in Northern Ireland;
 - (ii) any legislative amendments necessary for achieving the criteria set out in the Court of Justice ruling;
 - (iii) whether the option of seeking a derogation from EU law would be feasible in the circumstances of continuing direct rule and what would be involved; and
 - (iv) whether the legislative provision in Article 7 of the Industrial Development (NI) Order 1982, which appears to offer a de facto method of reducing corporation tax in Northern Ireland, would now be superceded by any state aid rules, which could prove problematic for its operation in the future (the HM Revenue & Customs web site states that under Article 7 "a grant may be paid to companies registered in Northern Ireland as reimbursement of CT [Corporation Tax] paid on profits from certain approved projects").
2. **The Assembly legal services has provided advice along the following lines:**
 - (i) The Northern Ireland Act 1998 does not make taxation in its totality an excepted matter. By virtue of paragraph 9 of Schedule 2, the following are excepted matters:
 - (a) taxes or duties under any law applying to the United Kingdom as a whole;
 - (b) stamp duty levied in Northern Ireland before the appointed day; and
 - (c) taxes or duties substantially of the same character as those mentioned in sub-paragraph (a) or (b).

In effect, this means that the Northern Ireland Assembly cannot interfere with or vary taxes or duties that are already in existence, and applying to the UK as a whole, as identified by paragraph 9.

Corporation tax does not fall outside the matters described in paragraph 9. For the Northern Ireland Assembly to have competence to legislate would accordingly require amendment to primary legislation.

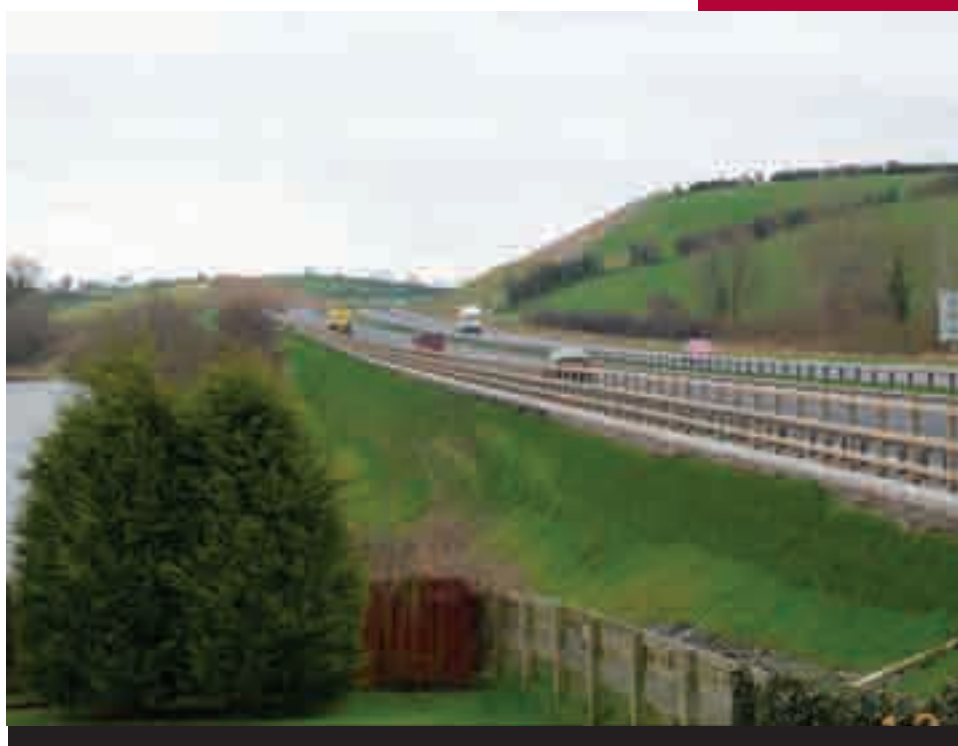
- (ii) To the extent that the Northern Ireland Assembly does not have legislative power similar to that which Portugal had devolved to the legislative body of Azores, the Court's ruling does not have any immediate effect. The more interesting aspect of the ruling is the intervention by the UK Government.
- (iii) If taxation (or simply corporation taxation) was devolved, then the effect of the ruling means that the Northern Ireland Assembly could decide to reduce corporation tax, provided that the mechanism used to do so was compatible with European Community law and, in particular, if there were no countervailing subsidies.
- (iv) In the absence of devolution, there would be an issue of differential implementation of Community law. The legal adviser would think that the issue of seeking a derogation in a direct rule situation can be dismissed.
- (v) If there is existing legislation which can be classified as an existing aid, then that may not be able to be attacked as a State Aid. The legal adviser would imagine, however, that any such instrument at national level would be looked at very closely by the European Commission.

Expanding the Strategic Road Improvement Programme 2015



Expanding the Strategic Road Improvement Programme 2015

Consultation Document



**Please respond by
Friday 29 September 2006
to:**

Network Development Branch
Roads Service Headquarters
Clarence Court
10-18 Adelaide Street
Belfast
BT2 8GB



An Agency within the Department for

**Regional
Development**

www.drdni.gov.uk

Expanding the Strategic Road Improvement Programme 2015

1. Background

- 1.1 Strategic Road Improvements (SRIs) are large capital schemes (>£1m) to develop and improve Northern Ireland's motorway and trunk road network. The purpose of this document is to consult key stakeholders on the make-up of an expanded SRI programme, made possible by the Investment Strategy for Northern Ireland (ISNI) which was developed by the Strategic Investment Board and announced in December 2005.

[\[http://www.sibni.org/index/information\]](http://www.sibni.org/index/information)

- 1.2 ISNI envisages an investment of £1,400m in SRIs in the period up to 2015. This is around £400m more than the current SRI programme which emanated from the Regional Strategic Transport Network Transport Plan (RSTN TP) published in March 2005. ISNI envisages the additional funding to be available towards the end of the 2015 period.
- 1.3 The Strategic Road Network is Northern Ireland's motorway and trunk road network, comprising the 5 Key Transport Corridors (KTCs), 4 Link Corridors, the Belfast Metropolitan Transport Corridors and the remainder of the trunk road network (see Annex E). The RSTN TP identified schemes to develop this network up to the end of 2015.
- 1.4 Consultation on the RSTN TP revealed strong support for SRIs. In a largely rural region, the strategic road network is seen as essential to facilitate the transport of people, goods and services and to support economic development across Northern Ireland.
- 1.5 While ISNI gives a very good basis for medium-term planning, it is important to note that once the expanded SRI programme is finalised, each scheme will be progressed on a measure-by-measure basis subject to:
- **detailed economic appraisal;**
 - **clearing the relevant statutory procedures such as environmental assessment, planning and land acquisition (each of which may require public inquiries); and**
 - **the availability of funds through the normal budgetary processes.**
- 1.6 The costs of all schemes in this document are estimated at 2005 prices, to match the price base used by ISNI.

2. Current SRI Programme

- 2.1 The current SRI programme comprises schemes on the motorway and trunk road network that are either at construction, preparation or forward planning stage.
- **Construction Programme** - Schemes already under construction.
 - **Preparation Pool** - High priority schemes that Roads Service is progressing through the statutory procedures of Environmental Appraisal, Direction Order

Expanding the Strategic Road Improvement Programme 2015

(equivalent to planning approval) and Land Vesting. Preparation Pool schemes are expected to be implemented within the next 5 years or so (subject to clearing the statutory procedures, having a satisfactory economic appraisal and the availability of funds at the time).

- **Forward Planning Schedule** - Schemes that perform well when assessed at feasibility stage using the 5 national criteria and which are expected to be implemented within the next 10 years or so (subject to clearing the statutory procedures, having a satisfactory economic appraisal and the availability of funds at the time).

2.2 A list of all schemes in the current SRI programme is given in Annex A.

3. Expanded SRI Programme

- 3.1 ISNI envisages an additional investment in SRIs of around £400m, becoming available towards the end of the 2015 period.
- 3.2 However, SRIs have long lead times – at least 6 years – from the time they are included in a programme until the work starts on site. This is because extensive feasibility studies are needed to select the preferred route, there is a requirement to undertake environmental assessments, ground surveys and economic appraisals as well as to progress the schemes through the statutory procedures of environmental statement, planning approval, land acquisition and procurement. So it is important to start planning early.
- 3.3 Roads Service has developed a proposed list of additional SRIs to make up the Expanded SRI Programme and this is given in Annex B. The description of any particular scheme should not be taken to represent the line of the scheme on the ground – this will be developed later once the scheme enters the Preparation Pool.
- 3.4 The proposed Expanded SRI programme, like the RSTN TP, is based on the guidance set out in the Regional Development Strategy (RDS) and the Regional Transportation Strategy (RTS). The selection is based on the Government's five key criteria of environment, safety, economy, accessibility and integration. It builds on the extensive work undertaken for the RSTN Transport Plan and aims to address bottlenecks on the Strategic Network, giving priority to the KTCs, next the link corridors and then the trunk roads.
- 3.5 In developing the list, it was essential to work within the funding envisaged by ISNI. This meant the list had to be constrained, and other possible SRI schemes which performed less well in the assessment, but which are not affordable within the ISNI funding envisaged to 2015, are given in Annex C. These are given for information, but are **not** proposed for the expanded programme at this time.

4. Distribution

- 4.1 The proposed list is reasonably well balanced across Northern Ireland, with good coverage in the West (which has 48% by value of the additional schemes) and the North-West (39%); this is on top of the £250m Derry to

Expanding the Strategic Road Improvement Programme 2015

Dungiven scheme added to the existing programme last December. For example, the proposed additional SRIs include a significant new route from Londonderry – Strabane – Sion Mills, bypasses of Enniskillen, Ballykelly and Fivemiletown and improvements to the A32 route from Enniskillen to Omagh.

- 4.2 But there are also schemes necessary to deal with bottlenecks and safety concerns on very highly trafficked routes in the east. These include a £50m scheme to provide a flyover junction carrying Westlink over York Street, as well as dualling on the A26 from Coleraine to Ballymoney and the A3 from Portadown to Richill. On the key A1 route from Belfast to Dublin, there would be a new £45m link between the M1 and Hillsborough to take through traffic past Sprucefield, and 4 additional flyover junctions on the existing dual carriageway between Hillsborough and Loughbrickland which, in addition to the 4 already programmed, will turn it into an expressway with no movements across the central reserve and a continuous central safety barrier.

5 Section 75 of the Northern Ireland Act 1998

- 5.1 In consideration of its obligations under Section 75 of the Northern Ireland Act 1998, the Department determined that a full Equality Impact Assessment (EQIA) should be carried out for the Regional Strategic Transport Network Transport Plan. The EQIA was published in June 2005. In addition to this the Department also considered New Targeting Social Needs(TSN), Rural Proofing and Health Impact Assessments. Copies of the EQIA document are available on the DRD website

[http://www.drdni.gov.uk/DRDwww_Consultations/].

- 5.2 A Section 75 Screening Analysis has been completed for the Expanded SRI Programme. In developing the proposed additions to the SRI programme and completing the screening process, Roads Service has taken into account the equality work already carried out for the RDS, RTS and RSTN TP. It has concluded that a further full EQIA is not required as the proposed programme does not affect the previous assessments. A copy of the Section 75 Screening Analysis Form can be obtained by contacting Roads Service at the address or given in section 7.3 or alternatively from the DRD and Road Service websites which are also given in section 7.3.

6 Strategic Environmental Assessment

- 6.1 The Department has developed a draft Environmental Report for consultation alongside the consultation of the Expanded SRI Programme. A copy of this draft report can be obtained by contacting Roads Service at the address given in section 7.3 or alternatively from the DRD and Road Service websites which are also given in section 7.3.

Expanding the Strategic Road Improvement Programme 2015

7 Consultation

- 7.1 We are interested in your views on the proposed list of additional SRIs given in Annex B.

In particular, we welcome responses to the following questions:

1. Are you generally in favour of the additional SRIs proposed in Annex B, and are there any particular schemes in it that you strongly support?
2. Are there any of additional SRIs proposed in Annex B that you definitely do not support, and if so what are your reasons?
3. Are there any schemes not listed in Annex B that you would like to see included in an expanded SRI programme? Given that we have to work within the funding envisaged by ISNI, which scheme or schemes would you remove from the list in order to make room for your additional proposals.
4. Do you agree with the Section 75 Screening conclusion? If not please give details.

- 7.2 In responding, please note two very important points:

- This element of ISNI and this particular consultation is in relation to **major improvement schemes (i.e. > £1m) on the motorway and trunk network**. In this consultation we will not be able to take account of suggestions for schemes on other roads, nor comments in relation to other types of work.
- The overall funding for this type of work is envisaged in ISNI which was the subject of consultation in 2005. In this consultation we will not be able to take account of suggestions that would vary the amount of funds envisaged by ISNI for SRIs. There will be an opportunity to consider that aspect again when ISNI is reviewed by the SIB in the next year or so.

- 7.3 The consultation period begins on the 31 July and **responses must be returned by Friday 29 September 2006**. Responses should be addressed to;

Network Development Branch
Roads Service Headquarters
Clarence Court
10-18 Adelaide Street
Belfast
BT2 8GB

Copies of this Consultation Document and the Draft Environmental Report are also available on the Roads Service and DRD Websites

www.drdni.gov.uk www.roadnsi.gov.uk

Should you require this document in an accessible format such as Braille, audio-tape, large print, minority ethnic language etc please contact the above address.

Expanding the Strategic Road Improvement Programme 2015

Annex List

Annex A

All Schemes in Current SRI Programme

Annex B

Proposed additional SRI Schemes to be added to the programme subject to consultation

Annex C

List of schemes that performed well in the assessment but are not affordable with the ISNI funding envisaged to 2015.

Annex D

Map showing locations of schemes in Annexes A, B and C

Annex E

Map showing the Regional Strategic Transport Network

Annex A

ALL SCHEMES IN CURRENT SRI PROGRAMME

Scheme	Description	Status	Cost £m
Eastern Seaboard Corridor			
M2 Widening (Sandyknowes to Greencastle)	Widen 5.4km of motorway to 3 lanes from Sandyknowes to Greencastle, replace 3 overbridges, and provide 3 lanes northbound over Greencastle interchange.	PP	£20m
M1 / Westlink Upgrade	Widen 2.6km of motorway and 1.4km of dual carriageway to 3+3 lanes between Blacks Road and Divis Street, including 2 underpass junctions.	CP	£104m
A1 Junction Improvements	Provide flyovers at 4 key junctions on A1.	PP	£16m
A1 L'brickland to Beech Hill	Upgrade 9.0km of single carriageway to standard dual carriageway, including hard shoulders.	CP	£25m
A1 Beech Hill to Cloghogue	12.1km of high standard dual carriageway with no central reserve crossings, including hard shoulders and 5 grade separated junctions.	PP	£109m
A1 Newry to Dundalk Link Road (NI section)	4.3km of high standard dual carriageway with no central reserve crossings, including hard shoulders and 1 grade separated junction (+10km in ROI).	CP	£33m
North Western Corridor			
A2 Widening - Buncrana Rd	Widening from Pennyburn roundabout to Skeoge Link section & from Skeoge Link to Border section.	FPS	£18m
Skeoge Link, Londonderry	New 1.9km dual carriageway link road.	PP	£5m
A514 Crescent Link	Widen 1.9km of single carriageway to standard dual carriageway (completes dualling of Crescent Link).	PP	£5m
A6 Derry to Dungiven	30km of dual carriageway from outskirts of Derry to Southeast of Dungiven (inc. Dungiven Bypass).	FPS	£250m
A6 Dualling: Randalstown - Castledawson	14.0km of high standard dual carriageway with no gaps in the central reserve and flyover-type junctions.	PP	£70m
M2 Crosskennan - slip roads at Antrim Hospital	Provision of two on-slips onto M2	CP	£3m
Northern Corridor			
A2 Broadbridge Dualling	6.75km of existing route to standard dual carriageway.	PP	£25m
A26 Glarryford - A44 Dualling	7km of standard dual carriageway.	FPS	£33m
A26 / M2 Ballee Road East	1.5km of dual carriageway passing under the Larne Road Roundabout, with 2 slip roads and 0.5km of side road.	PP	£7m

Annex A

Scheme	Description	Status	Cost £m
Western Corridor			
A5/N14 Strabane - Lifford Link	Link between N14/ N15 in Lifford and A5 in Strabane (NI section).	FPS	£3m
A5 Omagh Throughpass - Stage 3	2.4km single carriageway extension to Omagh Throughpass.	CP	£10m
South Western Corridor			
A4 Dungannon to Ballygawley	20.5km of high standard dual carriageway from Dungannon to Ballygawley Roundabout with no central reserve crossings and 6 flyover-type junctions.	PP	£102m
A4 / A5 Improvements	A4 Annaghilla: 3.8km of single carriageway realignment with eastbound 2+1 lane. A5 Tullyvar: 3.1km of single carriageway realignment with climbing lanes each way.	PP	£16m
A4 Henry Street/Sligo Road	Provision of additional traffic lane on approach to junction	PP	£2m
Belfast Metropolitan Transport Corridors			
A55 Widening at Knock Road, Belfast	Widen 0.6km of existing two lane single carriageway to four lane carriageway between Clarawood and Kings Road	PP	£4m
A2 Sydenham Bypass	Widen 2.5km of dual to 3 lanes	FPS	£29m
A2 Widening, Greenisland	Widen 2.4km of single carriageway to four lane carriageway between Jordanstown and Seapark.	PP	£39m
Link Corridors and Trunk Roads			
A20 Newtownards Southern Distributor	New 2.0km link road from Blair Mayne Rd South to Comber Rd to Portaferry Rd in conjunction with Castlebawn Development	PP	£3m
A20 Newtownards Frederick Street Link	New 0.3km single carriageway link road	PP	£2m
A24 Ballynahinch Bypass	4.1km single carriageway bypass with climbing lanes	FPS	£12m
A28 Armagh East	1.5 km single carriageway link road from Portadown Rd. to Newry Rd	FPS	£6m
A29 Carland Bridge Improvement	1.3km of single carriageway realignment	PP	£4m
A29 Cookstown Eastern Distributor	2.8 km single carriageway distributor road between Dungannon Rd. roundabout and Old Coagh Rd	FPS	£13m
A31 Magherafelt Bypass	3.0km single carriageway bypass linking Moneymore Rd. and Castledawson Rd	FPS	£13m

Annex A

Scheme	Description	Status	Cost £m
A32 Cherrymount Link	New 1.1km single carriageway link road	PP	£4m
A3 Armagh North and West link	New 3.8km single carriageway link road to Portadown	PP	£28m

Notes:

- 1: CP Construction Programme
PP Preparation Pool (within 5 years)
FPS Forward Planning Schedule (5 to 10 years)

Annex B

**PROPOSED ADDITIONAL SRI SCHEMES TO BE ADDED TO
PROGRAMME SUBJECT TO CONSULTATION**

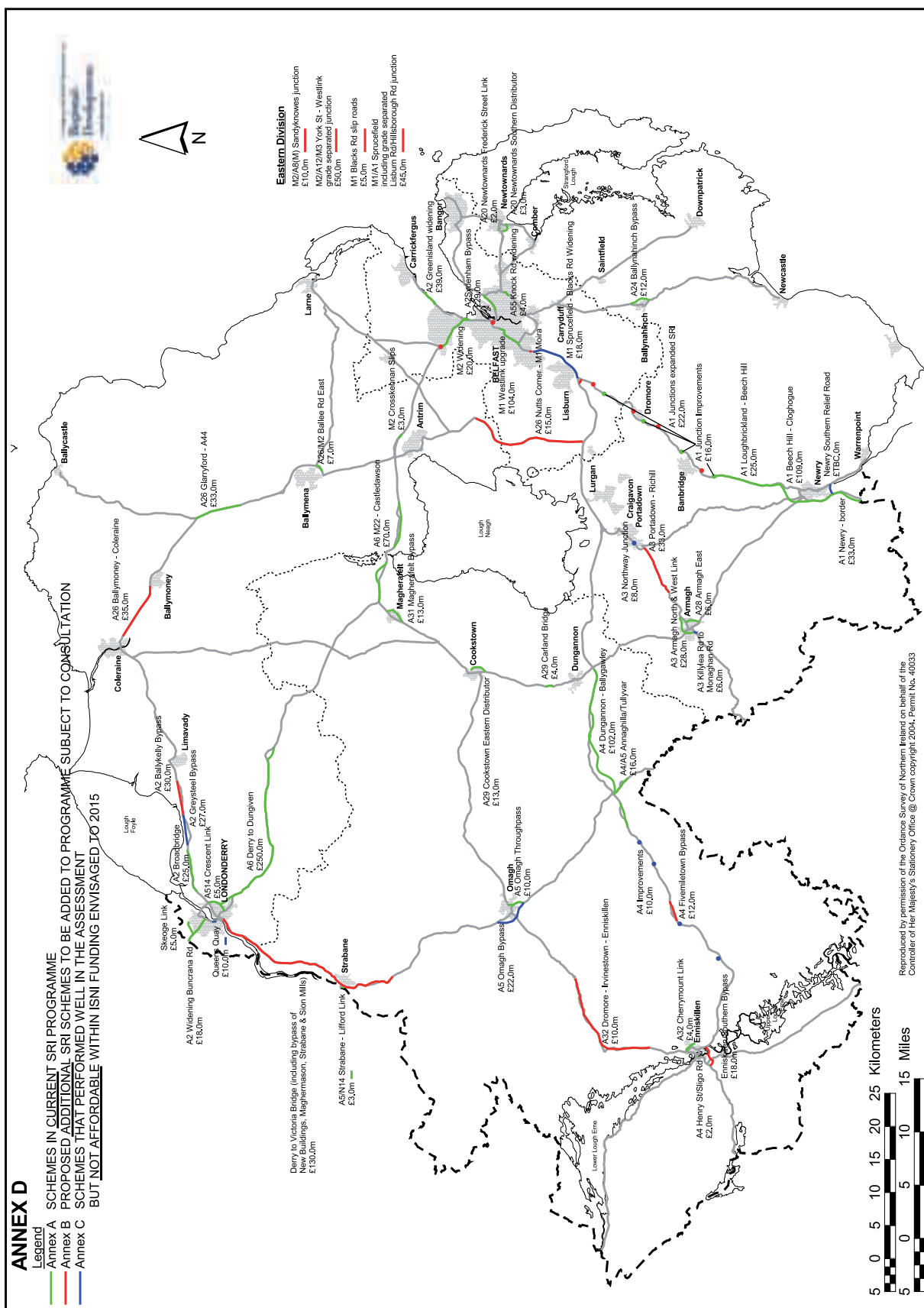
Scheme	Description	Cost £m
Eastern Seaboard Corridor		
M2 / A8(M) Sandyknowes Junction	Improvement to link the A8 Larne to the M2 motorway without being delayed at the Sandyknowes roundabout.	£10m
Westlink / York St flyover	Provide grade separated junction at the last remaining part of Westlink which has a traffic signalled junction.	£50m
M1 Slip Roads at Blacks Road	2 west facing on/off slips at the M1 Blacks Road junction, to relieve local roads carrying traffic to and from the M1 (west).	£5m
M1 / A1 Sprucefield Bypass	Approx 4km of high standard dual carriageway from M1 motorway to A1 at Hillsborough, bypassing Sprucefield Retail Centre and including flyover at Hillsborough roundabout.	£45m
A1 Junctions	4 additional flyover junctions and central safety fence to upgrade the A1 between Sprucefield & Loughbrickland to a higher standard dual with no at-grade crossings.	£22m
Northern Corridor		
A2 Ballykelly Bypass	6km of 2+1 single carriageway to bypass Ballykelly.	£30m
A26 - Ballymoney to Coleraine	7km of standard dual carriageway between Ballymoney (Portrush Road roundabout) and Coleraine (Windyhall)	£35m
A26 Nutt's Corner to M1 Moir	Provision of 2+1 carriageway widening schemes.	£15m
Western Corridor		
A5 Londonderry to Victoria Bridge.	30km of new route to 2 +1 standard, including bypasses of New Buildings, Maghermason, Strabane and Sion Mills.	£130m
South Western Corridor		
A4 Enniskillen Southern Bypass	3.2km of 2+1 single carriageway to bypass Enniskillen.	£18m
A4 Fivemiletown Bypass	3.4km of 2+1 single carriageway to bypass Fivemiletown.	£12m
Link Corridors and Trunk Roads		
A3 Portadown – Richill Dualling	6.5km of standard dual carriageway.	£33m
A32 Dromore - Irvineestown - Enniskillen	Programme of single carriageway improvement and realignment schemes including 2+1 sections.	£10m

£415m

Annex C

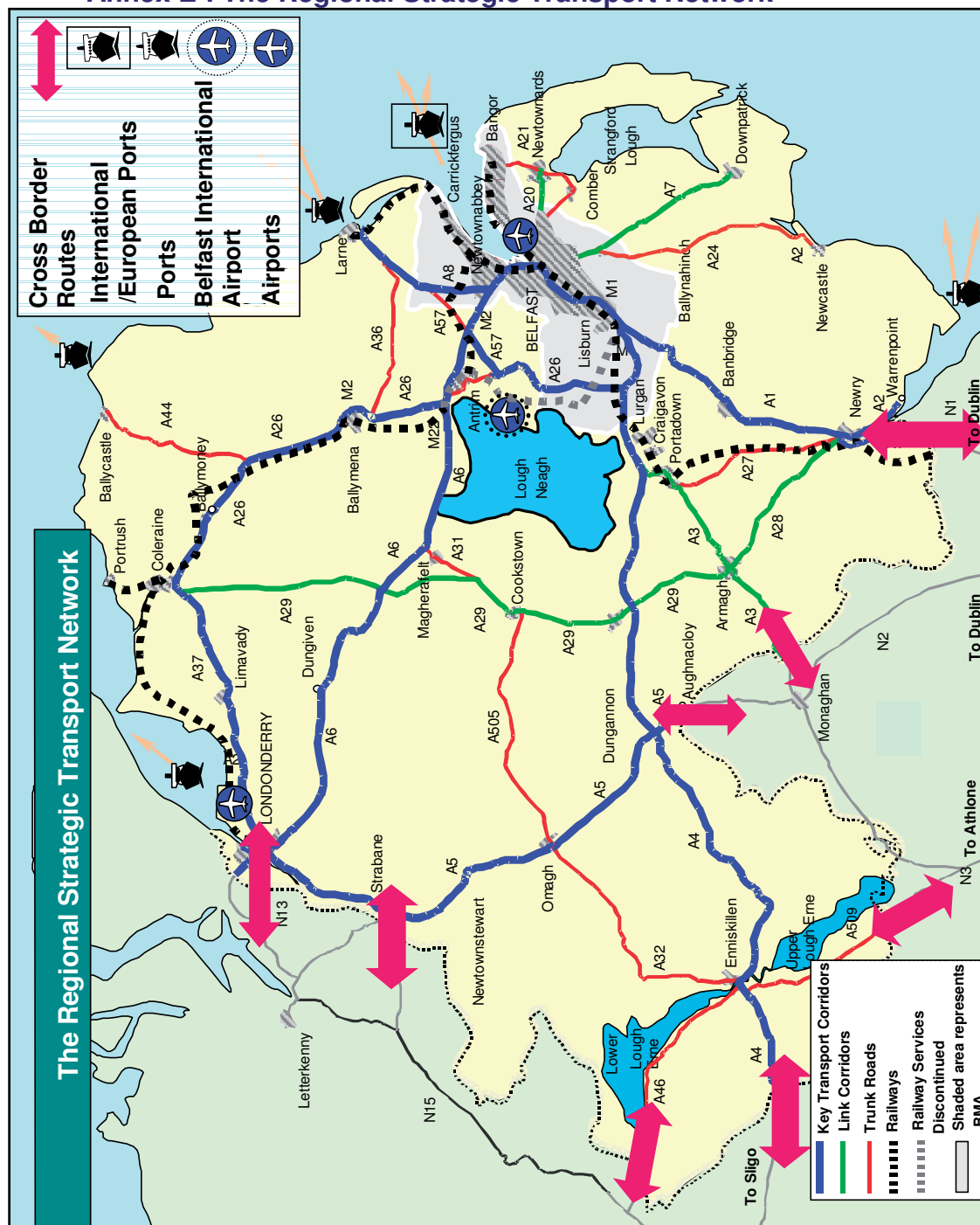
**LIST OF SCHEMES THAT PERFORMED WELL IN THE ASSESSMENT BUT
NOT AFFORDABLE WITHIN ISNI FUNDING ENVISAGED TO 2015**

Scheme	Description	Location	Cost £m
Eastern Seaboard Corridor			
M1 Widening Sprucefield to Black's road	Provision of additional lane in both directions, possibly using hard shoulder running.	Eastern Seaboard Corridor	£18m
North Western Corridor			
Queens Quay, Londonderry.	0.5 km of 4 Lane urban road to widen the last remaining 2 lane section between Craigavon Bridge and Culmore Roundabout.	North Western Corridor	£10m
Northern Corridor			
Greysteel Bypass	5.5km single carriageway bypass of Greysteel, linking to the proposed Ballykelly Bypass.	Northern Corridor	£27m
Western Corridor			
A5 Omagh Bypass	Outer bypass of Omagh for strategic through traffic, to single carriageway 2+1 standard.	Western Corridor	£22m
South Western Corridor			
A4 Improvements	Series of 2 + 1 widening schemes	South Western Corridor	£10m
Link Corridors and Trunk Roads			
Newry Southern Relief Road	Strategic link from Warrenpoint to the A1, avoiding Newry City Centre. Proposed measures to be developed and costed in feasibility study.	Trunk road	Not yet known
A3 Killylea Road to Monaghan Road Armagh	2+1 single carriageway extension of the Armagh North and West link scheme, currently in the Preparation Pool.	Link Corridor	£6m
A3 Northway Junction	Improvement of key junction for Portadown local traffic and through traffic to Armagh.	Link Corridor	£8m



Expanding the Strategic Road Improvement Programme 2015

Annex E : The Regional Strategic Transport Network



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Appendix 5

Directions from the Secretary of State



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Secretary of State for Northern Ireland

cc: Mr. Hoir
Mr. Reynolds
Ms. Donnelly
Mr. Gormel
Ms. McGivern
Mr. Pearce
Ms. Gordon
file

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

26 May 2008

Dear Speaker,

ASSEMBLY STANDING ORDERS AND COMMITTEE

I wish to notify you that I have determined two directions under Paragraph 4(1) of Schedule 1 to the Northern Ireland Act 2006.

The first amends the Standing Orders that were notified to you on 10 May 2008.

The second directs that a Committee of the Assembly be established.

A copy of each direction is enclosed.

Further to this, under section 1(1) of the 2006 Act, I wish to refer the following matters to this Committee. Namely:

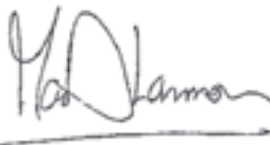
to scope the work which, in the view of the parties, needs to be done in preparation for Government.

26. MAY. 2006 16:48

SUP'S PRIVATE OFFICE

NO. 508 P. 3

I am copying this letter to the leaders of all parties represented at the Assembly and to the two independent members.

PP  (PRIVATE SECRETARY)

RT HON PETER HAIN MP
SECRETARY OF STATE FOR NORTHERN IRELAND
[Approved and signed in his absence]

26. MAY. 2006 16:48

SOF'S PRIVATE OFFICE

NO. 508 P. 4

NORTHERN IRELAND ACT 2006

DIRECTION DETERMINED BY THE SECRETARY OF STATE AND
NOTIFIED TO THE PRESIDING OFFICER UNDER PARAGRAPH 4(1) OF
SCHEDULE 1 TO THE NORTHERN IRELAND ACT 2006

1. The Standing Orders notified to the Presiding Officer on 10 May 2006¹ shall be amended in accordance with paragraphs 2 and 3.
2. After Standing Order 11B there shall be inserted the following:
“ 11C. Committees of the Assembly
 (a) Where
 (i) the Assembly decides by cross-community support; or
 (ii) the Secretary of State directs,
 that a Committee be established, the Business Committee shall make arrangements to establish that Committee in accordance with any such decision or direction.
 (b) Any decision of the Assembly to establish a Committee shall provide for the Committee's terms of reference and membership.
 (c) The procedures of any Committee so established shall be such as the Committee itself shall determine, unless otherwise provided for by a decision of the Assembly or direction of the Secretary of State.
 (d) In these Standing Orders, references to “Committee” shall include any working group.”
3. Standing Order 12(b) shall be replaced with the following:
 “(b) The following, namely:

¹ As amended by direction of the Secretary of State dated 22nd May 2006.


26. MAY. 2006 16:48

SOF'S PRIVATE OFFICE

NO. 508 P. 5

- (i) A vote on a matter in respect of which a petition of concern has been presented;
 - (ii) A vote on a decision to establish a Committee of the Assembly; or
 - (iii) A vote on any other matter as directed by the Secretary of State
- shall require cross-community support.”.

Signed

79  (PRIVATE SECRETARY)

SECRETARY OF STATE FOR NORTHERN IRELAND

[Approved and signed in his absence]

DATE: 26 May 2006

26. MAY. 2006 16:48

SOFS PRIVATE OFFICE

NO. 508 P. 6

NORTHERN IRELAND ACT 2006

DIRECTION DETERMINED BY THE SECRETARY OF STATE AND
NOTIFIED TO THE PRESIDING OFFICER UNDER PARAGRAPH 4(1) OF
SCHEDULE 1 TO THE NORTHERN IRELAND ACT 2006

1. I hereby direct that a Committee of the Assembly be established on necessary business relating to the preparation for Government. This Committee shall operate in accordance with the following paragraphs.
2. The Committee shall deal with such matters as I may refer and such other matters that the Committee itself agrees.
3. The membership of the Committee shall be up to three representatives from each party with more than 15 seats held in the Assembly and up to two representatives from any other party with two or more seats.
4. It shall be for the Committee to determine its own procedures, including arrangements for chairmanship.
5. Decisions of the Committee shall be by consensus.
6. The Committee may establish sub-committees to look at specific issues.
7. The Committee may refer matters to the Business Committee for debate in the Assembly.
8. The first meeting of the Committee shall take place on Tuesday 6 June.

Signed

PP 

(PRIVATE SECRETARY)

SECRETARY OF STATE FOR NORTHERN IRELAND

[Approved and signed in his absence]

DATE: 26 May 2006

2. JUN. 2006 15:17

SOFS PRIVATE OFFICE



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Mrs Eileen Bell, MLA
Speaker of the Assembly
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By fax: 028 9052 1959

ASSEMBLY BUSINESS

Under Paragraph 2 of Schedule 1 to the Northern Ireland Act 2006, I hereby direct that the Assembly shall meet at the date and time set out below.

Tuesday 6 June 2006 Assembly to sit at 2.00pm

In addition, further to my direction of 26 May under Paragraph 4(1) of Schedule 1 to the Northern Ireland Act 2006, I hereby direct that the date of the first meeting of the Committee of the Assembly on necessary business relating to the preparation for Government ("the Preparation for Government Committee") be brought forward. The first meeting of this Committee shall now take place on Monday 5 June at 11.00am. The Committee may refer matters to the Business Committee for its consideration or for debate in the Assembly.

I would hope that this Committee will be in a position to refer issues to the Business Committee for scheduling for debate when the Assembly meets on Tuesday. I will therefore defer a decision on what referral I may make for 6 June until I have received any recommendations for future Assembly business that the Business Committee might make following the inaugural meeting of the Preparation for Government Committee on Monday.

RT HON PETER HAIN MP

SECRETARY OF STATE FOR NORTHERN IRELAND

5. JUN. 2006 18:09

SOFS PRIVATE OFFICE

NO. 541 P. 2



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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

By fax: 028 9052 1959

5 June 2006

Dear Speaker

ASSEMBLY BUSINESS: PREPARATION FOR GOVERNMENT COMMITTEE

Further to my earlier direction, under Paragraph 4(1) of Schedule 1 to the Northern Ireland Act 2006, I hereby direct that the second meeting of the Committee of the Assembly on necessary business relating to the preparation for Government ("the Preparation for Government Committee") be held on Tuesday 6 June at a time to be determined by the Clerk Assistant.

Fiona McCoy
Private Secretary

PR

RT HON PETER HAIN MP
SECRETARY OF STATE FOR NORTHERN IRELAND

(Approved by the Secretary of State and signed in his absence)

cc Mr Hain
Mr Reynolds
Mr Good
Ms Donwoody
Mrs Pritchard.
File

12/06 2006 13:45 FAX

001



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Secretary of State for Northern Ireland

cc Mr Blair
Mr Reynolds
Mr Good
Ms Dunwoody
~~Ms [unclear]~~
File.

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

Dear Speaker,

PREPARATION FOR GOVERNMENT COMMITTEE

I was grateful for sight of your letter to the Committee on the subject of arrangements for chairing the Committee.

I want to offer my support for your explanation of the importance of protecting the impartiality of your position. I have privately expressed my appreciation for the manner in which you have discharged the responsibilities of that office since your appointment. I can assure you that your discharge of those responsibilities continues to enjoy my support.

However, I am keen that the Committee should make some progress. Whilst I share your views on the impartiality from party politics of the Speaker, as we agreed when we spoke last week, I believe that the trust which Assembly Members have shown in your Office and its incumbents offers a way forward for the Committee and that an arrangement whereby Mr Jim Wells and Mr Francie Molloy, whom I appointed on 11 May to the Office of the Speaker to act as deputy presiding officers, be responsible in rotation for chairing that committee, offers the best prospect for the Committee to make the progress that is required. Mr Wells and Mr Molloy, in chairing the

/TW



DIVISION OF PEOPLE

14/06/2006 10:41 FAX

002



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Preparation for Government Committee, will bring the same impartiality to the committee proceedings as they would when deputising for you in plenary.

Therefore, under Paragraph 4(1) of Schedule 1 to the Northern Ireland Act 2006 ("the 2006 Act"), I direct that the meetings of the Preparation for Government Committee, established under my direction of 26 May 2006, shall be chaired by the deputy presiding officers appointed by me under Paragraph 3(1) of Schedule 1 to the 2006 Act.

I further direct that the Committee shall meet on Monday 12 June at 4pm under the chairmanship of Mr Wells and on Tuesday 13 June under the chairmanship of Mr Molloy at a time to be determined by the Clerk Assistant. From 13 June onward, the Committee shall agree the date and timing of further meetings. If at any meeting the relevant deputy presiding officer is unable to act, or chooses not to, that meeting shall be chaired by the other.

JP

[Private Secretary]

THE RT HON PETER HAIN MP
Secretary of State for Northern Ireland
[Approved by the Secretary of State and signed in his absence]

/TW



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002



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Secretary of State for Northern Ireland

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

3 July 2006

Dear Speaker,

Thank you for your letters of 21 June and 27 June 2006 recording the views of the Business Committee on issues for plenary debate by the Assembly, the date of summer recess and arrangements for setting up a working group on economic issues.

I have reflected on these views, on the progress that has been made in the Preparation for Government Committee and on the discussions between the Prime Minister, the Taoiseach and the parties last Thursday. The statement that was issued by the Prime Minister and the Taoiseach following these discussions, and the associated work plan, set out both Governments' objectives for the coming weeks for achieving the goal of a restored Executive by 24 November. The work plan rightly envisages a key role for the Assembly as well as for individual parties. My decisions, set out in this letter, about Assembly business reflect this key role and responsibility and the timeframe in the work plan.

I have determined that:

- There should be a plenary debate of the Assembly at 10:30 on Friday 7 July.
- The Assembly should rise at close of business on Friday 7 July and should return on Monday 4 September.

/TW



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003



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This should be taken as a direction under Paragraph 4(1) of Schedule 1 to the Northern Ireland Act 2006. I will notify you on Wednesday of the subject for debate on 7 July, after the PFG and Business Committee have met, by a referral under Section 1(1) of that Act.

As envisaged in the work plan published by the two Governments yesterday, I am also directing, under Paragraph 4 (1) of Schedule 1 to the 2006 Act, that the Preparation for Government Committee continues its work during the summer recess at times to be agreed by that Committee. I regard the work of that Committee as of particular importance in addressing the issues highlighted in the work plan. I understand from discussions with the parties that similar issues have also been identified in the context of the PFG debates.

The remit of this Assembly, as set out in the 2006 Act, is to 'take part in the preparations for the restoration of devolved government in Northern Ireland'. It seems right, therefore, that the PFG in taking forward their work both share their thinking with and take the views of Assembly members.

I would, therefore, be grateful if the PFG, with the help of the Chairs in facilitating and leading discussion, could take account of the issues and timeframe set out in the work plan published by the two Governments in developing its work and propose to the Business Committee issues for plenary debate in the Assembly. I am referring these matters to the PFG under section 1(1) of the 2006 Act.

My current intention is that there should be a plenary debate of the Assembly on 4 September and a further debate on Tuesday 5 September. I would be grateful if the Business Committee could advise me by Wednesday 30 August on appropriate

RTW



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topics which emerge from the Preparation for Government Committee for those debates and on the sequencing of issues for debate.

I have noted that parties have different views on the best way to give effect to the agreement in the Assembly debate on 15 May to a working group on recommendations to a restored Executive on the economic challenges facing Northern Ireland. Given that the aim of such discussion is to make preparation for the work of a restored Executive, I am referring the matter of discussion of economic issues to the PFG under section 1(1) of the 2006 Act and directing them, under Paragraph 4 (1) of Schedule 1 to that Act, to set up a sub-group and report back to the Assembly in September.

I am also directing, under Paragraph 4(1) of Schedule 1, that the PFG set up sub-groups on two issues identified in the two Governments' published work plan – 'changes to the institutions' and 'devolution of criminal and justice and policing'. These two sub-groups should also report back through the PFG to the Assembly. Should the PFG wish to establish sub groups additional to these two – for example on rural planning – I would welcome this.

I direct that the membership of sub groups should comprise one PFG member from each party plus five other members (one from each of the five parties on PFG) with a particular interest or expertise in the issue being considered. The sub-groups should be chaired alternately by the two independent chairs of the PFG. If the PFG decides that further independent chairs are needed for such sub-groups, I will invite the UUP, SDLP and Alliance parties to nominate suitable candidates to me. These names, along with the two deputy Speakers, can then comprise a list of independent chairs from which the PFG can choose when setting up sub-groups. In selecting suitable candidates it is important that they, like the two deputy speakers, have the skills and





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experience both to secure the confidence of all parties in their ability to act independently and to facilitate and lead discussion. After discussing progress in the PFG with the deputy Speakers I wish to clarify that their role should be not merely to preside but to promote consensus in all meetings of the PFG and its sub groups.

I should perhaps say again on the issue of consensus that whilst I continue to believe that it is right that the parties reach agreement on recommendations that are put to me for Assembly debate, I do not think it is right that any party should use the basis of consensus as an opportunity to exercise a veto unreasonably or as an opportunity to prevent the effective operation of or progress in the Business Committee or the PFG. Rather, I hope that members of these committees will seek to achieve agreement in discussion.

I very much welcome the three plenary debates that have taken place in the Assembly. I look forward to the further work, as set out above, resulting from the first debate on economic issues.

You will be aware that the consultation on PPS14 relating to rural planning has now ended and responses are being analysed. I have asked my officials to ensure that the points raised in the Assembly's debate are included in that analysis. As I have said previously, I will take account of the views of Assembly where there is cross community support and, of course, a restored Assembly will have the power to take forward policy in this area – as in others – as it sees fit.

The debate on industrial rating was a valuable one. Members were obviously well-informed in relation to this issue, reiterating the arguments for changing the policy that those from the manufacturing sector have expressed to me. I remain concerned, however, that any changes to the policy as it stands would require

/TW



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significant spending cuts to front line services. We estimate that the loss of rates revenue, should industrial rating be capped at 25%, in the period to 2011 would be £106m. The policy provides a commitment to a review after two years. I very much hope that a restored Assembly will be in place to conduct that review and to take whatever decisions it considers appropriate in light of it.

I should like to take this opportunity to thank you, your colleagues on the Business Committee and the PFG and the Assembly Clerks for their work for the Assembly over the last seven weeks. This has been a challenging period for all concerned and I am grateful for the commitment that there has clearly been to making the current Assembly work as effectively as the circumstance allow. We all shared frustration in the early weeks that time was expended on procedural issues at the expense of substantive debate. I know that there has also been frustration about the difficulties of agreeing business for plenary sessions. But I believe that there has been valuable progress and I hope that the parties will use the summer constructively to ensure that the Assembly can actively prepare for Government when it reconvenes in September, through plenary debates both on issues that are proposed to the Business Committee by the PFG and other motions that individual parties or MLAs may table.

Yours sincerely,
Fiona McGlynn
Private Secretary.

PP

THE RT HON PETER HAIN MP
Secretary of State for Northern Ireland
(Approved by the Secretary of State and signed in his absence)





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Secretary of State for Northern Ireland

Deputy Speaker of the Assembly
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11 July 2006

We met this morning to discuss my letter to the Speaker of 3 July in which I directed the setting up of three subgroups of the Preparation for Government Committee (PFG). You had a number of queries that I was happy to clarify at the meeting and also by way of this letter and the attached direction and referral.

The particular points on which you sort clarification on behalf of the PFG were:

- Am I making a direction to set up the subgroups under Paragraph 4(1) of Schedule 1 to the Northern Ireland Act 2006 and a referral as to the issues for discussion in these subgroups under section 1(1) of that Act?

I confirm that I am making a direction and a referral to set up the three specified subgroups.

- Do I intend the subgroups to operate by consensus or by majority vote?

I am content for them to operate by simple majority of those voting

- Am I content for the subgroups to meet if one or more parties do not attend?





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The attached direction directs that the membership of the subgroups should be two representatives from each of the parties represented on the PFG. If, however, for any reason a party is not able to be represented at a subgroup meeting, or chooses not to do so, I am content for the subgroup nevertheless to meet, I am also content for substitutes.

- Do I envisage discussions of the subgroup on devolution of justice and policing to include the issues of criminality and decommissioning raised at the PFG meetings?
- It is for each subgroup to determine what subjects are relevant to their discussions of the issue that I am referring to them. I am content for the subgroup on devolution of justice and policing to consider issues of criminality and decommissioning if they agree to do so. It is of course also open to the PFG, under the direction I issued on 26 May 2006 establishing the PFG, to establish any other sub committees to look at specific issues.

I hope that this letter and the attached direction and referral are helpful and that the PFG will act on this direction and referral when it next meets. I understand a meeting is scheduled for Monday 17 June.

Thank you again for your work for the Assembly and the PFG. Please do not hesitate to get in touch if you require any further clarification or wish to discuss any matter.

I am copying this letter to the Speaker.


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



MINISTER OF THE CROWN



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NORTHERN IRELAND ACT 2006

DIRECTION DETERMINED BY THE SECRETARY OF STATE AND
NOTIFIED UNDER PARAGRAPH 4(1) OF SCHEDULE 1 TO THE
NORTHERN IRELAND ACT 2006 AND A REFERRAL UNDER SECTION
1(1) OF THAT ACT

1. Further to my direction of 26 May 2006 establishing the Preparation for Government Committee, I hereby direct that the Preparation for Government Committee shall establish three subgroups. I refer the following matters to each of those subgroups respectively.

- Devolution of justice and policing
- Changes to the institutions
- The economic challenges facing Northern Ireland

The subgroups should operate in accordance with the following paragraphs.

2. Each subgroup shall deal with such matters as each subgroup agrees are relevant to the matter referred above and shall deal with such other matters as I may refer in the future.
3. The membership of each subgroup shall be two representatives from each of the parties represented on the Preparation for Government Committee (PFG). One of each of the two party representatives shall be a member of the PFG.
4. Each subgroup shall be chaired by either of the two independent Chairs of the Preparation for Government Committee. If the Preparation for Government Committee decides that further independent chairs are needed for such subgroups I will invite the UUP, SDLP and the Alliance parties to nominate suitable candidates to me in accordance with my letter to the Speaker dated 3 July 2006.
5. A subgroup may meet whether or not all party representatives are present.



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6. Each party present shall have a single vote. Decisions of a subgroup shall be by simple majority of those voting.
7. It shall be for the Preparation for Government Committee to determine any other necessary procedures.
8. Each subgroup shall report to the Preparation for Government Committee in accordance with the terms of reference set by the Preparation for Government Committee.

A handwritten signature in black ink, appearing to be 'D. M. L.', written over a horizontal line.

SECRETARY OF STATE FOR NORTHERN IRELAND

DATE: 11-7-06



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19 September 2006

PREPARATION FOR GOVERNMENT COMMITTEE REPORTS

Thank you for your welcome to the Preparation for Government Committee (PfG) session I attended yesterday and for your courtesy, and that of other PfG members, in the running of that session. As I said at this session, I am grateful for the work the PfG has completed over the summer period and much encouraged by the way in which all the parties have worked together to reach agreement in key areas and, even where agreement on specific issues has not yet been achieved, have nevertheless produced valuable reports of their work for MLAs and others to consider. I am pleased that both the report of the Economic Sub group and the report on Law and Order issues have been put to the Assembly for plenary debate.

I would similarly like to see the Assembly have the opportunity to consider the conclusions of the PfG discussions of Changes to the Institutions and Rights; Safeguards; Equality Issues and Victims. I understand, however, that because of the continuing concerns of Sinn Féin about the nature of plenary debates at this time in the current Assembly, although the Committee has agreed its report on equality and rights, they were not able to achieve consensus on printing the report.

I note Sinn Féin's position but I am reluctant to deny MLAs the chance to see the conclusions of the full range of PfG work over the summer. I have, therefore, decided to direct under paragraph 4(1) of schedule 1 to the Northern Ireland Act



INVESTOR IN PEOPLE



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2006 that the report on Rights; Safeguards; Equality Issues and Victims be printed and published. I would be grateful if this could be arranged so that the Business Committee can advise me on the best timing next week for the Assembly to debate the report.

I am copying this letter to the Speaker.

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

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



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26 September 2006

PREPARATIONS FOR GOVERNMENT COMMITTEE REPORTS

I understand that the Preparation for Government Committee met yesterday and agreed a report on Institutional Issues but were unable to reach consensus on the printing and publication of that report.

As with other PfG reports, I would like the Assembly to have the opportunity to consider the conclusions of the Preparation for Government Committee discussions and report.

For this reason I hereby direct, under paragraph 4(1) of schedule 1 to the Northern Ireland Act 2006 that the report on Institutional Issues be printed and published.

I would be grateful if this could be arranged so that the Business Committee can advise me on the best timing next week for the Assembly to debate the report.

I am copying this letter to the Speaker.

Yours Sincerely

JACQUE SDA
PRIVATE SECRETARY

RT HON PETER HAIN MP
Secretary of State for Northern Ireland
(Approved by the Secretary of State and Signed in his Absence)

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