

COMMITTEE ON THE PREPARATION FOR GOVERNMENT

# Report on the Economic Challenges Facing Northern Ireland

VOLUME 2

OFFICIAL REPORT AND PROCEEDINGS RELATING TO THE REPORT  
AND SUB-GROUP WORKPLAN

*Ordered by the Committee on the Preparation for Government to be printed 4 September 2006*  
Report: 1/06R (Committee on the Preparation for Government)

**Published by Authority of the Northern Ireland Assembly by the Stationery Office: Belfast**  
**£26.00**



---

# Terms of Reference

## **Terms of Reference**

1. To identify the major impediments to the development of the economy in Northern Ireland
2. To consider fiscal incentives that may promote foreign direct investment and indigenous investment.
3. 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.



---

# Contents

Membership and Terms of Reference	iii
-----------------------------------	-----

## **Appendix 2: Official Report of Proceedings relating to the Report**

1.	Thursday 20th July 2006	First Meeting of Sub-group	1
2.	Tuesday 25th July 2006	Business Alliance Federation of Small Businesses InterTradeIreland	23
3.	Thursday 27th July 2006	Strategic Investment Board Invest Northern Ireland	71
4.	Tuesday 1st August 2006	John Simpson (Economist) Department of Enterprise Trade and Investment Officials Enterprise Northern Ireland	107
5.	Thursday 3rd August 2006	Industrial Task Force NIC-ICTU Department of Education Officials Department of Employment and Learning Officials	151
6.	Thursday 3rd August 2006	Emerging Issues Session	195
7.	Tuesday 8th August 2006	Moy Park Ulster Farmers Union Wrightbus Limited Department of Finance and Personnel Officials	215
8.	Thursday 10th August 2006	Northern Ireland Tourist Board Economic Research Institute of NI NI Council for Voluntary Action	257
9.	Tuesday 15th August 2006	Consideration of Draft Report	305
10.	Thursday 17th August 2006	Consideration of Draft Report	321

<b>Appendix 3: Sub-Group Workplan</b>	<b>357</b>
---------------------------------------	------------



---

## **Appendix 2**

# Official Report of Proceedings Relating to the Report

---

---



## Thursday 20 July 2006

### Members:

The Chairman, Mr Francie Molloy  
Dr Esmond Birnie  
Dr Seán Farren  
Mr David Ford  
Ms Michelle Gildernew  
Mr Barry McElduff  
Mr David McNarry  
Mr Sean Neeson  
Mr Ian Paisley Jnr  
Ms Margaret Ritchie  
Mr Peter Weir

*The Committee met at 10.05 am.*

*(The Chairman (Mr Molloy) in the Chair.)*

1. **The Chairman (Mr Molloy):** Proceedings will now be covered by Hansard.
2. **Mr McNarry:** If we are meeting on Tuesdays and Thursdays, how difficult will it be for Hansard to produce a transcript of a meeting on a Tuesday by the Thursday?
3. **The Chairman (Mr Molloy):** It probably will be difficult. It will depend on the evidence sessions and the length of our meetings. Many of the evidence sessions will include presentations, which may shorten the production time. There has been some pressure on Hansard to turn the transcripts round in 48 hours. More staff are required to deal with the other subgroups. The big problem is staff holiday leave.
4. **Mr McNarry:** I do not want to be picky, but members are present, and a number of people, on this subgroup and on the Preparation for Government Committee, have rearranged their holidays. I am at a loss to know why Hansard has this problem. May I make a request that every effort be made for a record taken on a Tuesday to be available on a Thursday?
5. **The Chairman (Mr Molloy):** I agree that it is important that members can correct the transcript of one meeting before any subsequent meeting.
6. **Ms Gildernew:** I appreciate the difficulties and the time constraints in trying to facilitate everyone, especially as Hansard is trying hard to get it right. People need their holidays, and three months ago, no one thought that we would be meeting throughout the summer. People cannot easily rearrange pre-booked holidays. It is difficult when children are involved. I suggest that witnesses prepare presentations. Obviously, that will not be possible for question-and-answer sessions. If witnesses came with presentations, it would help Hansard.
7. **The Chairman (Mr Molloy):** Yes. That is important.
8. I will deal with the declaration of interests. Assembly Standing Order 20(d) states:  
*“Before taking part in any debate or proceeding of the Assembly, a Member shall declare any interest, financial or otherwise, which is relevant to that debate or proceeding, where such interest is held by the Member or an immediate relative.”*
9. Members should have already received a copy of ‘The Code of Conduct’, together with ‘The Guide to the Rules Relating to the Conduct of Members’, which advises on the registration and declaration of Members’ interests. Those are included in today’s papers.
10. We have dealt with the issue of privilege in the Preparation for Government Committee. There is limited privilege.
11. **The Committee Clerk:** Schedule 1, paragraph 6 of the Northern Ireland Act 2006 states:  
*“A written or oral statement made by a member in or for the purposes of the Assembly is to be privileged from action for defamation unless it is proved to have been made with malice.”*

12. I do not know how that would be proved, but that is the ruling. This privilege also extends to meetings of Committees, subgroups, or whatever. Members should note, however, that privilege does not extend to press conferences or statements made to the press. That is our legal advice.

13. **Ms Gildernew:** Do you have a copy of that?

14. **The Committee Clerk:** I will get a copy for you.

15. **The Chairman (Mr Molloy):** If members have any interests, could they declare them now? Otherwise, hold thy peace.

16. **Mr McElduff:** I am a former corner forward for Carrickmore Seniors. *[Laughter.]*

17. **The Chairman (Mr Molloy):** Dr Peter Gilleece, senior researcher, will give a research presentation.

18. **Dr Gilleece:** There is a copy of the paper in the pack. I will briefly run through the main points of the paper — it will only take five minutes. On the surface, it would appear that levels of unemployment in Northern Ireland are at a record low of 4% and that there is continuing economic growth. There is a consensus view that Northern Ireland needs a significant additional policy boost to rebalance the economy. Progress is considered to be insufficient to catch up with other regions based on the GB average.

19. In terms of developing a more sustainable and balanced economy, and for the public and private sector mix to achieve the UK average, the private sector gross value added needs to treble in size. It is the view of the Confederation of British Industry (CBI) in Northern Ireland that something radical needs to be done.

20. University of Ulster economist Mike Smyth thinks that if one accepts the argument that the current structure of the Northern Ireland economy is the result of a unique set of circumstances over the past 38 years, it can be argued that what is required to return the economy to a more normal growth trajectory is an equally unique or abnormal set of policies.

21. What might those policy options be? Mike Smyth has identified four policy options.

First, there is the status quo — that Northern Ireland continues to depend on public sector expenditure to maintain living standards. Secondly, there could be enhanced capital allowances and research and development (R&D) tax credits. For example, Amgen, which is one of the world's leading independent biotechnology firms, recently located a global R&D centre in Cork because it was not feasible to consider Northern Ireland as a location. However, a 300% tax credit might have changed the position.

22. The third option is a corporation tax concession to match that in the Republic of Ireland. Mike Smyth's fourth option is high-level North/South industrial development co-ordination to capture some of the positive economic spillovers from the very rapid growth of the economy in the Republic of Ireland. To illustrate those examples, he points to the fact that 20 of the Fortune 100 companies are located in the Republic of Ireland and 50 of the Fortune 500 companies are in the Republic of Ireland. None are located in Northern Ireland.

23. Both the Industrial Task Force and the Northern Ireland Business Alliance have proposed actions including significant fiscal incentives to attract foreign direct investment that would encourage various higher levels of indigenous investment. They believe that, although Government strategies on skills and innovation are welcome, only by combining indigenous growth with high quality foreign direct investment can we meet the projected employment deficit.

24. Economist John Simpson believes that Northern Ireland needs a radical series of initiatives to build more successful outcomes and to start to catch up with other competitive knowledge-based regions.

25. The debate about the size of the public sector versus the private sector in Northern Ireland continues. The Republic of Ireland's public sector is 33% larger than it was in 1988. Economist Mike Smyth believes that the task for economic policy development in Northern Ireland for the foreseeable future is to achieve

private sector growth, and not necessarily to cut the size of the public sector per se.

26. Philip McDonagh, chief economist with PricewaterhouseCoopers, believes that the picture is far from bleak, as long as existing levels of public expenditure are sustained. With the £14.7 billion infrastructure programme commencing, and Northern Ireland having one of the few growing workforces in the EU, there should be a continued boost to investment and no shortage of labour to deliver it. That situation will become even brighter if there is a managed transition from the public sector domination in the economy to it becoming one that is private-sector-led.

27. Entrepreneurship and innovation are now firmly established on the public and private sector agendas as priorities for economic growth. It has been three years since the launch of the strategic documents designed to embed entrepreneurship in Northern Ireland in the form of an accelerating entrepreneurship strategy, and the innovation strategy entitled 'think/create/innovate'.

28. Since then, in respect of entrepreneurship performance, Northern Ireland remains ninth out of the 12 UK regions in its level of entrepreneurial activity. The most recent data on innovation activity places Northern Ireland tenth out of the 12 UK regions, a drop from sixth place in 2000.

29. A key determinant of innovation activity is investment in R&D. The spend on R&D by businesses as a proportion of value added is 0.8% compared to the UK average of 1.4%.

30. Levels of university/business collaboration, a key objective of the innovation strategy, remain low. Only 2.2% of R&D spend in Northern Ireland universities is derived from UK business, compared to 5.5% across the UK.

*10.15 am*

31. Relative to investment in R&D, universities in Northern Ireland are the least efficient of the 12 UK regions, in terms of patent applications and non-software licences granted and their intellectual property income from large commercial organisations.

Universities perform slightly better in terms of income from small and medium-sized enterprises (SMEs) and the number of spin-outs.

32. In conclusion, the challenge for economic policy in Northern Ireland is to assist the transition to a higher performance economy. The challenge is considerable. A low-growth, low-productivity, low-innovation economy has powerful self-reinforcing barriers to change. There appears to be general agreement among business leaders that we need to concentrate on the crucial areas of building skills and supporting innovation.

33. Leslie Morrison, the chief executive of Invest Northern Ireland (INI), offers a more optimistic view. He believes that Northern Ireland must play to its strengths: a young, well-educated and adaptable workforce; a high-quality research base in the universities; a telecommunications infrastructure that offers 100% broadband access; our near-shore locations for North America and Europe and our world time-zone centrality; our excellent system of commercial law and protection of intellectual property; and an environment that is supportive of, and responsive to, the needs of business.

34. **The Chairman (Mr Molloy):** I thank Dr Gilleece for his presentation.

35. **Mr Paisley Jnr:** Dr Gilleece's paper is an exceptional piece of work, and it will serve as a useful template for the subgroup when it draws up its report. The paper highlighted several points that need to be reflected in our briefing paper and in our terms of reference.

36. One issue that emerged from Dr Gilleece's paper, which has also emerged from other studies, is how the entrepreneurial spirit is a driver to economic success in other economies. The low levels of entrepreneurial activity in Northern Ireland and the impediments to such activity rank fairly low in our briefing paper, but the matter of how we encourage entrepreneurial activity should be brought to the fore, and we should try to focus on that. Although issues such as infrastructure and poor literacy and numeracy skills are important, many things have been thrown into this just to tick boxes. If we are to talk turkey, the issue of lack of encouragement

for entrepreneurial activity must be placed up front and addressed quickly, and I am glad that Dr Gilleece identified that in his paper.

37. Another important issue on which we must focus is the unique circumstances that Northern Ireland finds itself in as a result of a generation of the troubles and IRA violence. From the 1970s on, Gerry Adams directed a campaign against economic targets, and the bombing of our economic targets has obviously been a long-term impediment to our economic success. We must consider putting up front a special measure — such as investment or additional resources from Government — that takes account of the terrorism war and recognises that Northern Ireland needs extra-special help in emerging from a terrorism campaign. Getting those additional resources from the Government should be high on our agenda.

38. The paper also implies that, while there are successful economies and individuals elsewhere, Northern Ireland has its fair share of successful individuals who have demonstrated entrepreneurial drive. Many of us could point to very successful individual businesses throughout Northern Ireland — not in the public sector, but in the private sector — that have done extremely well, in spite of terrorism and all the impediments. That will probably affect our list of potential witnesses because that list relies very heavily on the public sector. We should be asking private companies that are successful, innovative and entrepreneurial, such as Wrightbus Ltd and Moy Park, to come here and tell us how they have done it.

39. Let us consider things that could help us to draw up a report and make recommendations, as there are people who have been successful through thick and thin. Let us find out how they have done that and learn from them, as opposed to trying to learn from organisations that are teachers, not doers. Let us talk to the doers in life as opposed to the teachers.

40. **Ms Gildernew:** I too thank Dr Gilleece for a comprehensive paper, and I welcome the fact that, in his opening remarks, he acknowledged that a quarter of Northern Ireland's

children live in poverty. As elected representatives, we must take that seriously.

41. There have been various economic challenges for the private sector here, not least partition. The border has created huge problems for businesses to grow, and when communities are socially and economically cut off from their hinterland, that has a huge impact. There has been a lack of investment in infrastructure, particularly west of the Bann. It is also widely recognised that the private sector is not big enough and needs to grow. However, one of the barriers to that is that there have been years of political instability here, and we still do not know whether there will be an Assembly in November.

42. The business community constantly reminds us that we need to do our job in order for them to do theirs. As Peter Hain pointed out last year, the North is a failed entity from an economic point of view, as well as, I believe, from a political point of view. The Six Counties cannot exist alone economically. We must seriously consider the harmonisation of tax regimes. Corporation tax, in particular, has a big impact on my constituency of Fermanagh and South Tyrone, where people can look at investment opportunities a few miles across the border in Monaghan or Leitrim that are not available to them in Fermanagh and Tyrone. The comparisons between the Twenty-six Counties and the Six Counties must be considered and the fact that we must step up to the mark.

43. I welcome Mike Smyth's comments that something unique or abnormal will be needed. We are consistently tied to the common theme of keeping this place in line with the UK. It was also a constant theme in previous Committees that we needed to keep our policies close to those of the UK. We have much more stacked against us with high energy costs, high transportation costs, lack of infrastructure, and the investment and development that must take place in the border corridor. We cannot tie ourselves to Britain; we must look seriously at harmonising the regime across the island and working as an all-Ireland entity. InterTradeIreland



and INI are doing what they can, but they have their hands tied behind their backs, as they are unable to work with the bodies across the border.

44. There is much more potential here for tourism, but it saddened everyone to hear the news last week that tourists were unable to find anywhere open to get a bite to eat. We have to consider seriously the whole July scenario and the orange parades, as we are again cutting off our noses to spite our faces. If we cannot attract people to visit here, we have less chance of attracting them to invest in this place. We face serious challenges, and a great deal of work must be done to bring the private sector up to the necessary level.

45. **Mr Weir:** That contribution could have been a set speech from any stage over the past 70 or 80 years. We need to look forward, but there has been some degree of progress. I welcome the previous member's commitment for us to build on the Twelfth of July as a major European cultural festival. That shift in thinking at least shows that there is a realisation of the importance of the Twelfth as a key event in our calendar and that there is a need to build on its obvious tourist potential. I welcome those remarks and hope that they can be built upon.

46. I do not accept the broad concept outlined by the previous member who spoke and also, unfortunately, by the Secretary of State. If he is trying to sell Northern Ireland abroad, it is highly counterproductive for him to refer to Northern Ireland as an economically failed enterprise. I do not accept that as a notion.

47. There are many things that we need to do. We must focus on the broader picture and look more outwardly rather than simply look down South. The notion of moving towards a much wider market will not be helped by the idea of detaching ourselves economically from a larger market and tying ourselves much more closely into a smaller market that is less than one-tenth the size.

48. We must be open in our co-operation across any border or boundary. We should be careful about tying ourselves in with the Republic of Ireland. We should be looking at the global market because we have seen the

effect that globalisation is having in our constituencies. There is a realisation that there is no point in fighting particular battles. For instance my area, like many others, had a strong textile industry. Apart from concentrating on certain specialisms, the Northern Ireland textile industry will be a thing of the past because, with the best will in the world, we will not be able to compete with north Africa or China. The only way that some of those markets can be sustained is by moving into the high-value-added side and specialisms that cannot be supplied by way of the same level of cheap commodities elsewhere.

49. I welcome the paper as it provides a useful steer for the subgroup. The long list of issues under tab 8 is useful because we should not rule out any options at this stage. The paper identifies options involving research and development and corporation tax. There is clearly a range of issues to be explored, such as industrial derating and high energy costs, which are identified elsewhere.

50. The subgroup ought to concentrate its efforts on the private sector and considering a role for Government in removing obstacles to the private sector. If the subgroup gets into too much of an argument about the balancing effect of the public and private sectors, the danger will be that we will be making a rod for our own backs. If rebalancing is required, the Government reaction will be to reduce the size of the public sector — and that will not be particularly helpful to Northern Ireland. We need to look at indicators that will help the private sector to grow.

51. The subgroup's thoughts and solutions on reducing obstacles are likely to be in the form of a cocktail of measures. As with most things in life, there is no magic bullet or single measure that will solve all our economic problems. There must be a wider context. As Ian Paisley Jnr said, we must increase the entrepreneurial spirit because — whether it has been a reaction to a range of things, be it economic circumstances or the troubles — many of our brightest students from Queen's University or the University of Ulster are heading towards the professions.

52. I am as much a victim — or perpetrator — of that as anyone. I considered being a lawyer or an accountant and I am sure that many others did the same. Some even went down the route of lecturing, and I should perhaps refer to Ian Jnr's remarks about addressing this not as much to the teachers, but to the practitioners. I am sorry; I did not mean that in any particularly bad way.

53. People of my generation and from my background automatically assume that having a good job means being a lawyer, a doctor, an accountant or a teacher. We must consider how to encourage people to become entrepreneurs. Our society has been somewhat lacking in entrepreneurship.

*10.30 am*

54. Finally, I reinforce Ian Paisley Jnr's point that we need to talk to business practitioners. A criticism that has run through a number of issues is that there is almost too much of a Soviet-style command economy. We should consider how to remove barriers to allow entrepreneurs to flourish.

55. It is useful to hear from those in Government who deal with investment and are trying to bring in overseas investors. However, I want to hear the real problems and the real solutions. Therefore, I most want to hear from the horse's mouth, from people who have been at the coalface and have succeeded and delivered. It may also be instructive — although it may be more difficult to arrange this — to hear from those who have tried to compete in the economic world and have not succeeded; perhaps they can tell us the pitfalls. Sometimes one can learn from other people's mistakes as much as from their successes.

56. **Mr McNarry:** I add my thanks to Dr Gilleece and to those involved in preparing his presentation. I am sure that we all concur that the package was well put together and very helpful.

57. This meeting was OK at the start and then went downhill. At the start of a meeting of the Subgroup on the Economic Challenges facing Northern Ireland, Sinn Féin regrettably introduced

political nuances. Perhaps Sinn Féin has now got that off its chest, and I hope that we will be spared that in future meetings.

58. I take issue with an earlier comment. I do not agree that Northern Ireland is a failed economic entity. I was saddened by the Secretary of State's choosing to say such a thing, as it has given succour to the remark being repeated. Perhaps the Secretary of State is a somewhat failed political entity in Northern Ireland and needs to be careful.

59. I listened intently to Ian Paisley Jnr, and I agree that it is time to hear from those who have succeeded. Perhaps we do not need to hear the full elixir of their success, but rather how they got there, what they thought, where they got their ideas and how they were helped or not helped. Listening to some of their practical experiences may help others.

60. No member of the Government knows where my constituency of Strangford is. Anyone who lands in either of the Belfast airports is directed to other parts of Northern Ireland. The Government have brought no new industry to Newtownards for 37 years, despite the large population of that town.

61. I am sure that we all have particular grievances in our constituencies. I do not want to personalise this, but my constituency has a business centre whose record on start-up companies is highly successful. Having proved their success and wanting to expand, those companies must move outside the Strangford constituency because there are no facilities for them there. Invariably, they move into another constituency, which has a knock-on effect on the workforce. Local people are trained, and companies move elsewhere.

62. I reiterate that I want to hear from successful entrepreneurs, if they will come to speak to us. I also want to put down a couple of markers to identify, where possible, which of the potential witnesses can and will attend.

63. People involved in the economy must tell us exactly what educational standards are required, and we must educate our young

people to fill those jobs and meet future economic demands.

64. Young people are gaining qualifications that prove that they certainly have ability, but those qualifications bear no resemblance whatsoever to their jobs. We need an indication of what jobs will be required in Northern Ireland over the next 10 to 15 years, what schools will be required and then find out whether we are teaching young people to go in that direction.

65. It may be mentioned somewhere in the report, but we must raise the level of the cost of power in industry. We need to see the damage and effect that has on us in competition terms. If it were possible, the subgroup might agree to speak to some young people — not to give evidence, but to hear their futures being discussed.

66. We are concerned about, and have highlighted, the brain drain. However, it is not just about that, it is about poverty — as Michelle said. It has been shown that young children in poorer areas are not coming forward into full employment, and we want to find out what we can do for them. It may be a task for some young people to come to the subgroup, but there are competent young people in Northern Ireland, and I am very proud of them. It would be helpful to know what they are looking for. It would also be good if we were able to tell the business community what young people want.

67. **Ms Ritchie:** I thank Dr Gilleece for his paper and the members of the secretariat for the documents presented in advance of the meeting, which were useful.

68. We must identify all the economic challenges facing the people of Northern Ireland — including the impediments — and ensure that whatever Government we have knows how to meet those challenges. That includes the business and economic world, the trade unions and any competitor involved. We are trying to achieve a better way of living and better wealth for the people in the North of Ireland. We must also ensure that there is a fair distribution of wealth and that all the population has a fair and equal opportunity to benefit.

69. In looking at Dr Gilleece's paper, I was taken by the views of Mike Smyth. The Secretary of State is anxious to chide us that we have invested too much in the public sector. However, we have always had a small private sector, and to displace the public sector with the private sector is not necessarily the answer. The private sector is mobile, and it could move investment out of the North of Ireland — and even the island of Ireland — to other countries with low-cost economies and put people here at a disadvantage.

70. We must realise that agriculture and fishing are no longer the principal industries: they have been put in second place, and we must ensure that the people in those industries are given all the opportunities available.

71. We must consider issues in a North/South context. Political stability is related to economic stability, but, over the past 35 to 40 years, there were many reasons that we did not have economic stability, not least of which were paramilitary and state violence, which cannot be discounted. We need more pragmatic North/South co-operation. We must examine the options so that opportunities are available for everyone.

72. Recently, the International Centre for Local and Regional Development, which has links to Harvard University, published a study into the two spatial planning strategies on the island: the regional development strategy in the North, 'Shaping our Future', which is currently under a five-year review; and the National Spatial Strategy in the South. The subgroup could tap into that study. Perhaps we should take evidence from Dr Driscoll and others who are involved in that collaborative research, because they might be able to tell us how we can work together to achieve economic opportunities not only in border areas that were impacted on because their natural economic hinterlands were cut off, but on issues of social interaction. That should be looked at as well.

73. In the North, we depend heavily on the roads network. Most freight is carried on roads that are, of course, also used for domestic travel. The subgroup should examine the North/South railway infrastructure and the Derry-Belfast

line to ensure that business can be conducted more efficiently and effectively. We need proper investment in the roads infrastructure. We must ensure that the downturn in the structural roads maintenance budget does not turn an asset into something that requires reconstruction; we could be robbing Peter to pay Paul. We must ensure that that does not happen. The North of Ireland needs a well-developed and internationally competitive physical infrastructure that meets the needs of existing businesses and attracts inward investment.

74. **Mr Paisley Jnr:** That is a good point. Business people from outside Northern Ireland are amazed that cargo and freight cannot be carried on the Belfast-Dublin train. Freight must be carried on the roads network, or an alternative network must be used. In Northern Ireland, certain commodities must be distributed via the roads network. That is absolutely crazy. This issue merits examination, so that we can find out if cargo can be carried on trains.

75. **Ms Ritchie:** I thank Mr Paisley Jnr for his comments. The subgroup could take evidence from representatives from the freight and haulage industry, who contribute to the economy. From their experience, they could tell us about any impediments or challenges that need to be overcome. We need to develop the roads and the public transport infrastructure.

76. The Planning Service should be more sympathetic and friendly to the business world. Something simple like a planning application for a business project or a factory takes a long time to process. That issue should be examined, so perhaps we should take evidence from the Planning Service as well as the Economic Development Forum. We should not be restrictive about whom we invite to give evidence. We must examine all the opportunities, and, most importantly, we must move on. If we continue to look to the past, we will miss opportunities. We must avail ourselves of all opportunities.

77. We also need to look at examples in the European Union, because we may be able to take evidence from the academic perspective in the directorate and from practitioners too.

10.45 am

78. **Dr Birnie:** I have a number of points, and I will respond to some things previous members have said. Entrepreneurship, which Ian and others stressed, is critical, and we need to look at that, because there is a danger that we could focus so much on promoting inward investment and the development of companies whose ownership lies outside the Province that we neglect indigenous or locally controlled manufacturers and service companies.

79. That would be a mistake because there is abundant evidence from our experience in other parts of the world that locally owned firms have a greater tie-in with the local economy. They are less likely to be mobile and, as previous members have said, up sticks with their capital and hop to other jurisdictions when markets or tax conditions change.

80. Although I am happy to acknowledge the considerable achievement of the so-called Celtic tiger economy South of the border, particularly since 1990, when annual economic growth in the Republic has been in excess of 5%, and, in some years 10%, many experts in Dublin concede that the outstanding weakness in the Southern economy is the heavy dependence on foreign direct investment. It is working at the moment, but there is no guarantee that it will continue to work. We need to learn that lesson from the Southern experience. We should not only look at promoting external firms; we should also look at the promotion of the local business sector.

81. The cost of the troubles was emphasised by other members, particularly Ian Paisley Jnr. This is an unusual feature of our economy and has been one of the impediments to economic progress over the past 30 to 40 years. We cannot say that the cost no longer exists. The recent Northern Ireland Affairs Committee report on organised crime gave considerable evidence about how paramilitary and other organised crime groups have almost set themselves up as medium-sized businesses leeching off the legitimate sector of the economy. Being a multi-hundred-million-pound enterprise — although



not the sort of one we are keen to encourage — it is sucking the lifeblood out of the economy.

82. Experts feel that this is just one of the causes of our economic predicament rather than the only one. It is not even the biggest cause. Our experience since the mid-1990s suggests that, while being a necessary condition for economic dynamism, the achievement of greater peace and stability, and ultimately a stable and workable form of devolved Government here, is not a sufficient condition for it — we need to look at other things.

83. There is the issue about what might be called economies of scale. Michelle made a point about this: the old adage about Northern Ireland being a failed entity, going back to Mr Haughey and other commentators. Obviously, Northern Ireland has a small economy, and in many cases it is sensible for us to seek economies of scale by linking with outside markets. However, we need to be pragmatic about that. I have no objection in principle to greater co-operation with the Southern economy provided that it is on the basis of mutual benefit — that is the rubric within the 1998 agreement.

84. Of course, ours is also a UK and European Union regional economy. Therefore, as Dr Gilleece said, in a sense we should not narrow our horizons, as successful businesses seek profitable expansion opportunities anywhere in the world.

85. I thank Dr Gilleece and all the staff for their background notes for today's meeting. The point was raised in Dr Gilleece's paper, and our deliberations will have to dig into this crucial question, that Mike Smyth has given the economy a number of options. We could reduce the headline rate of corporation tax, perhaps to the Southern rate of 12·5% or lower, as was suggested, or, we could increase tax allowances. The crucial point is that we have a choice. Lobbying from business community groups such as, on the one hand, the Industrial Task Force, which is headed by Sir George Quigley, and the Northern Ireland Business Alliance on the other, has given me the impression that there are strongly differing views about which of those routes we should go down. We need to be

very careful to ensure that we get into that question in some detail, because there are good arguments for both strategies.

86. One could say that, on the surface, both those routes increase the net or post-tax profits of a company and that they are mathematically equivalent, but that lowering the tax rate or increasing the allowance is another matter. Business experts seem to feel that there are arguments for and against both routes, and we will have to get a handle on that.

87. I should perhaps declare an interest as a former academic economist and say that in seeking witnesses to give evidence to the subgroup, there is a strong case for us to hear from groups such as the Economic Research Institute of Northern Ireland (ERINI), which is the successor to the Northern Ireland Economic Council (NIEC) and the Northern Ireland Economic Research Centre (NIERC). Prof Richard Harris has done some fundamental research in that area, so we should consider that.

88. We should also question officials from the Department of Enterprise, Trade and Investment and other Departments. Northern Ireland should have had its regional economic strategy in place; indeed, it was scheduled to be so in autumn last year. We are nearly past the middle of summer 2006, so something in the official policy-making process has clearly slowed down. That is a concern.

89. **Dr Farren:** I welcome the opportunity that this subgroup has given us to look at economic challenges. I hope that in doing so we will shed our almost innate tendencies. On the one hand, whenever the South is mentioned, we say: "Ah, but" and talk of dark clouds on the horizon and that we should not go down that road in case those clouds cover us. On the other hand, there is another almost innate tendency to say that the North is such a basket case that the only place from which we can start is in the context a united Ireland.

90. The Good Friday Agreement set down the framework within which we must operate, and, given that we have such a short time at our disposal, our initial report should concentrate on the opportunities that we can identify — beyond

August, this subgroup may have further work to do.

91. I say to Esmond Birnie that a strategy, the Economic Development Forum, is in place.

92. **Dr Birnie:** My understanding is that that is contained in 'Economic Vision for Northern Ireland'. There is to be a response from Departments, with regard to existing policies, by the autumn.

93. **Dr Farren:** I imagine that, essentially, the Department will adopt the main thrust of that report. From the discussions that I have been involved in over the last two or three years, and from observing the situation generally, I am satisfied that a clear consensus has emerged with respect to the economic vision that people share and believe that we should aim for. That vision concerns the adjustment from an economy that is overly dependent on the public sector to one in which wealth creation is a much greater contributor to overall economic development. Within that vision, there are a considerable number of identifiable targets that need to be aimed for and worked towards, including some matters that have been raised this morning.

94. We are not without a great deal of work on entrepreneurship. I endorse Ian's suggestion that we should talk to successful entrepreneurs, many of whom have succeeded in spite of what might have been done — with the best of motives — by the Government. Many started off on the shop floor with little or no third-level education. Although a few may have attended courses on how to succeed as an entrepreneur, they have all become successful because they saw opportunities and had the guts to go for them.

95. That tends, however, to be rare. We will not be able to reproduce Tony O'Reilly or Willie Wright and his family just by listening to them and then tapping whatever juices they have and squirting them into other people in order to make new Tony O'Reillys, Willie Wrights or Tony Ryans. That is not the way that it will happen; we will have to create and provide the opportunities.

96. Notwithstanding the high-flyers, there still needs to be a network of support systems in

place to help people lower down the chain — and I say that without any pejorative suggestion — of entrepreneurial activity. We are not without a great deal of that already. On our journeys here this morning, even though it is a holiday period, we will all have overtaken, or been overtaken by, large trucks carrying goods to and from Northern Ireland, either South or across the Irish Sea to Britain and further, so do not imagine that we are starting from scratch.

97. There is a great deal that we can enhance in the support systems that are already out there, and we can draw on the examples of what has happened down South. Having been brought up there and having received my primary, secondary and third-level education there, I was told often by my mother to make sure that I got a job in the Civil Service as it would be permanent and pensionable.

98. **Mr Paisley Jnr:** You should have listened to her. Honour your father and mother.

99. **Dr Farren:** Perhaps I should have taken her advice.

100. My point is that advice was given to everyone in my class at school to move in that direction or become a teacher — and teachers are getting a bit of a battering around here. Nevertheless, that is the road I chose to follow.

*11.00 am*

101. Going into business was not even mentioned. It is mentioned now, and all around us we can see good examples of people taking up business opportunities. Michelle Gildernew can see the Sean Quinns of this world — not all of his business is located in the South. Fermanagh depends considerably on the employment he offers north of the border, as well as south.

102. Let us hear from successful people and from those who have already been involved in developing the strategy. I am a firm believer in the importance of a social partnership, and I point to the Southern experience of that as a clear example of the success that we should try to follow, where successful social partnerships have worked to underpin the economic

strategies adopted by the Government over the past 10 to 15 years.

103. The Economic Development Forum provides us with a rather unwieldy, but nonetheless similar, opportunity for such a partnership to be created and developed here. We should hear from it because it represents the leading players who contribute to economic strategies as regards education, the business world, Government and — at the other side of industry — the trades unions, which are missing from our list but which should be consulted.

104. We may not have time in the next few weeks to consult individually, so it might be worth starting with the Economic Development Forum, given that it has produced a document that covers all the issues. It may not provide all the answers, nor answers with which we might agree; however, it would be a useful starting point in hearing from the outside world. Moving on from that, there are the Northern Ireland Business Alliance (NIBA), agencies such as Inter-TradeIreland, and Invest Northern Ireland itself.

105. Over the next few weeks, let us identify a set of achievable objectives to compile an initial report and see then where we are as regards further work.

106. **Mr McElduff:** The briefing papers are good material to reflect upon. There is no escaping the political impediments, and we should listen to civic society and the business community. The Northern Ireland Business Alliance came to this Building on 16 May, talked of economic challenges, and highlighted the requirement that the Assembly and the political institutions must function without delay. As elected representatives, that responsibility is ours and we can do something about it. Page 10 of the NIBA presentation refers to the need for a stable Government and a stable society.

107. The NIBA clarified what that meant when it gave its presentation.

108. I do not apologise for emphasising, as Michelle Gildernew did, that the cost of partition to our economy must be factored in strongly. The fact that there are two separate

economic systems has resulted in great inefficiency and heavy duplication of spending, and we are certainly not making the most of our finite resources. That is in view of the fact that this island has a population of fewer than six million people. I welcome the fact that Mike Smith highlighted the difference in corporation tax between the two states; that is definitely a major impediment.

109. During the past couple of days, I have engaged with the man and woman in the street about our economic challenges. Yesterday, I asked a gentleman in Omagh what he thought the economic challenges were. The two issues that kept being mentioned were investment in infrastructure and corporation tax. I did the same vox pop in a shop in Pomeroy on my way here today, and the shopkeeper in Pomeroy gave the same answer. It is fascinating that the people in the street have firm views about the difference in corporation tax between the two states and the need for infrastructure. If we want to create balanced regional development for our economy, we should also emphasise the west of the Bann and the greater north-west of the island of Ireland.

110. Some years ago, at a Question Time, I asked the then Minister for Regional Development what were the number of dual carriageway and motorway miles in Counties Tyrone, Fermanagh and Donegal. I think that the answer was in single figures. There is also a total absence of rail infrastructure in those areas. A map of Ireland shows that the north-west has no rail infrastructure provision whatsoever. The state of the A5/N2 road from Derry and Donegal to Dublin is also an issue. The road is of poor quality, coupled with the fact that there is no rail option.

111. Common sense tells us, and the people are telling us, that proper, functioning, democratic institutions are needed to give confidence and stability to our economy. People are also saying that investment in infrastructure, balanced regional development and the difference in corporation tax are the issues that need to be addressed.

112. There is an emerging consensus that the subgroup should hear from successful practitioners — perhaps those who have experienced hurdles and barriers to success and who might want to share those. That could happen in evidence sessions, although, as Séan Farren said, our immediate challenge is probably time-limited. Briefing papers could also be provided to the subgroup. I would like a briefing paper on the contribution that the education system in the South has made to an education and skills strategy for its economy.

113. Chairman, you represent the Mid-Ulster constituency. Four of those dual carriageway miles that I mentioned earlier are between Cookstown and Moneymore, for whatever reason.

114. **Mr McNarry:** You are not doing your job.

115. **Mr McElduff:** You need to get back to your constituency, Mr Chairman.

116. **The Chairman (Mr Molloy):** I thank Dr Gilleece for his presentation.

117. The first decision for the subgroup is whether its evidence sessions are open or closed. That decision can be made now, or when each meeting takes place. Can we make a decision one way or the other?

118. **Mr Weir:** Mr Chairman, there should be a general presumption that evidence sessions should be open. Certainly, any meetings with Government officials should be open.

119. If, say, an industrialist wants a closed session, we should accommodate that, but as a general rule we should sit in open session.

120. **Mr McElduff:** I agree with that. The presumption should be in favour of openness.

121. **The Chairman (Mr Molloy):** That is grand. On top of that, we have a list, but it is not complete; members may propose other names for that list. As I listened, I thought of the Northern Ireland Manufacturing Focus Group (NIMFG), as it deals with issues related to industrial derating. It is important to remember that evidence reports can be very longsome. We do not have sufficient time at this stage to produce such a report.

122. **Mr Paisley Jnr:** Margaret Ritchie pointed out, and I fully agree, that we should have someone here from the Planning Service. David Ferguson, Chief Executive of the service might helpfully be put on notice.

123. **The Chairman (Mr Molloy):** Yes. With the handout is an outline timetable of evidence sessions — two a week. Changes can be made to that, but if we want to hear evidence from Ministers, departmental officials and business-people, we should give adequate notification.

124. **The Committee Clerk:** I have pre-warned certain witnesses that they may be called for next Tuesday's evidence session. I will call them back after this meeting to tell them the times we have arranged. In my view it is important that we should have NIBA and the Federation of Small Businesses (FSB) up first. They can tell us what they believe is wrong before we bring departmental witnesses. That might give members food for thought about what they wish to ask Departments.

125. Liam Nellis, Chief Executive of InterTradeIreland, is off next week. We had also intended to call the Minister, Maria Eagle, and officials from DETI.

126. As for timings, we planned to give everyone roughly an hour: NIBA from 10.00 am to 11.00 am; FSB from 11.00 am to 12.00 noon; Liam Nellis from 12.00 noon to 1.00pm; a break for lunch from 1.00 pm to 2.00 pm; and Maria Eagle from 2.00 pm to 3.00 pm or later. On Thursday we were intending to call David Hanson and hoped that the Chief Executive of the Strategic Investment Board (SIB) would also come. Leslie Morrison is in Canada at the moment so we planned to slot him in on Thursday also.

127. We are aware that we need to hear many more witnesses. Esmond Birnie mentioned ERINI, and we envisage hearing them the following week, as well as the Northern Ireland Council for Voluntary Action (NICVA).

128. As for economists in general, we should decide whether we want to hear Mike Smyth and John Simpson, for example. I have made a



list of some people members have mentioned. Margaret Ritchie mentioned Dr Driscoll.

129. **Ms Ritchie:** He is based in Harvard at the International Centre for Learning. I could give you his address.

130. **The Committee Clerk:** He probably would not come, but we might get written evidence from him.

131. **Ms Ritchie:** Yes, we could get written evidence from him, and also from the officials involved in the co-ordination of both spatial strategies. They are available in the Department for Regional Development. Officials worked with colleagues in the South who were working on the National Spatial Strategy there. Dr Driscoll led the project, highlighted the issues for them and brought it all together.

*11.15 am*

132. **Dr Farren:** The EDF is a very representative body. I am concerned about the time available to us. The EDF has brought together thinking from a lot of the separate bodies that are being proposed around this table, and we need to consider it at some point. Since that thinking is available in the form of 'Working Together for a Stronger Economy', whether we start off with that or finish with it, we ourselves should be confident with the document's contents. Perhaps we should invite a representative panel, which might include some of the people mentioned on the list, to take a different approach. I suggest that we contact the EDF and ask it how it would like to play it.

133. You have suggested that the Minister should appear next week. Would that be in the first session?

134. **The Chairman (Mr Molloy):** Yes.

135. **Dr Farren:** That decision may have been made because she is not available later on.

136. However, I would like to bounce the ideas that we obtain in the course of further discussion off the Minister later on, rather than early on, because she is one of the policy-makers.

137. **Mr Weir:** I have no problem with asking some officials from DETI to give a general overview, but I agree that the Minister should

be scheduled a good deal later. That may mean that we take two bites of the cherry on the Government side. We could take an initial view of matters from DETI officials, and schedule the Minister for a later date.

138. **The Chairman (Mr Molloy):** We would need to check on that.

139. **Mr Weir:** Yes; we need to check up on that. It is a common theme of my party, but we should not see ourselves as hammered too heavily by deadlines.

140. It is important that we have an initial draft report according to the timetable that has been laid out for us. That is fair enough and no one would disagree. Given the number of issues and the number of people that have been identified around this table, it is important that we do not rush this matter. Whatever initial work is done between now and the middle of August — which is the first deadline — to some extent, we will get only a little bit into it. Irrespective of what the future holds, there could be enough work for us to meet every week between now and November, and I am not even saying which year.

141. There is clearly much work in that. We can bank what we have got by the middle of August, but it is important that we see that as part of a longer continuum. August is a staging post.

142. It is also important that we line up a number of people to speak to us. We have a relatively packed agenda for next Tuesday's meeting. We have mentioned William Wright, for example.

143. **Mr Paisley Jnr:** Perhaps Trevor Campbell.

144. **Mr Weir:** It may be useful if each of the parties contact the Clerk with names of potential witnesses. I am wary of shooting from the hip on that matter. We cannot just throw out a few names now and be definitive. There may be many important people that we have forgotten about, whose names have not occurred to us at this stage.

145. **The Chairman (Mr Molloy):** It would be helpful if Members submit names to the Committee Clerk.

146. **Mr Weir:** Yes. We must give a degree of thought to that and try to schedule those people.

147. **Mr McNarry:** It is important that we are charged to report to the PFG by that date. If that report is significant, work would continue, if the PFG consented. I hope that there will be a debate in the Assembly on that report, in which all parties around this table would participate. More issues will arise when our colleagues get their teeth into that report. We could put all of the names of potential witnesses in a hat and draw them out, because we are not going to get them all. We know most of the views of those people; we have heard them before, and they all have an agenda.

148. It is important that we do not hear their agenda, but that we hear what they can contribute. It is also important, therefore, that the staff relate that. I do not want to be lobbied in this subgroup. I have gone through all that and heard it and I am interested in it, but I want to hear what they think they can contribute, on the broader base as well as on the individual one.

149. The renewables sector seems to be growing in importance. I do not know how we can address the economy without looking at that, nor am I sure how to find out about it, because it is highly commercial. Nevertheless, we should have something on that.

150. I agree that the Ministers perhaps should be left towards the end.

151. **Mr Paisley Jnr:** Are you suggesting Ministers and the private sector in week four?

152. **Mr McNarry:** Yes.

153. **Mr Paisley Jnr:** That is a good idea.

154. **Ms Gildernew:** I am glad to see that NICVA is included, given the number of jobs in the community and voluntary sector. The Irish Congress of Trade Unions (ICTU) should be represented in the light of the changes to the public sector.

155. It is also obvious that a perspective on the rural economy is missing. Perhaps Martin McDonald of the Rural Development Council should be asked to give an overview of the challenges it faces, because we must not forget

that jobs in the rural community should be maintained and sustained.

156. **Mr McElduff:** I support Michelle's point that the trade union perspective needs to be heard. I am intrigued to hear from the North/South Ministerial Council's joint secretariat about the experience of the economic round table, in which George Quigley and others are involved. I would like to get some perspective from there as well.

157. **Ms Ritchie:** I agree with other members about our discussions concerning the public sector and the role of Ministers. We need to hear from other sectors in order to be able to ask the Ministers about issues that may arise.

158. In my first submission, I mentioned the need to take evidence from the road haulage and freight industries, because they make a major contribution to the economy, not only in Northern Ireland, but on the whole island of Ireland, in an east-west direction and in Europe. We should talk to them about current challenges and future opportunities.

159. The quarry products industry is a major one. Dr Farren referred earlier to the important contribution of Sean Quinn to that industry. It is represented by the Quarry Products Organisation and the Construction Federation.

160. **Mr McNarry:** Where do we end this list? I could throw in agriculture, fisheries —

161. **Mr McElduff:** Perhaps we should have a mix of briefing papers and evidence sessions.

162. **Ms Ritchie:** I take Mr McNarry's view on board, but perhaps, when we have identified the issues in the earlier weeks, there may be work to be done at a later stage, when we could take evidence from those people. The other issue is whether those groups will be submitting evidence in advance so that we can study them before coming to the meetings and be well briefed.

163. **The Chairman (Mr Molloy):** That will be important. However, as David McNarry has said, they should be asked to speak within this subgroup's terms of reference, which have already been set in relation to the PFG. That gives us a guideline and ensures that they are

not just coming in to lobby on their own issues, or even on the issues within the subgroup itself.

164. **Mr Paisley Jnr:** There is an issue around duplication in the groups. It is important to get on top of that. If we brought in the Ulster Farmers' Union and the Federation of Small Businesses and took the muck and the metal out of it, the issues that we are going to hear about are red tape, bureaucracy, duplication, form-filling and all of those things.

165. It would be useful if the subgroup could get the briefing papers as far in advance as possible so that we could tell the witnesses that we would like them to talk about the intriguing points.

166. **The Chairman (Mr Molloy):** If we want to get the briefing papers in advance, we must notify the witnesses as soon as possible. The earlier we can put together the list, the better our response will be.

167. **Mr McNarry:** I agree with Ian's point. If the organisations can be identified and their briefing papers forwarded to the subgroup, they can be alerted that they may be required to address one or two points from their submissions.

168. **Dr Farren:** The work of this subgroup is meant to be strategic. As David McNarry said earlier, its purpose is not to hear organisations rehearse their own perspectives, legitimate as those may be. It is right that we ask a range of different organisations to appear so that they can focus on how they see the strategic issues that are related to the economy's development. It is not a matter of what we can do for them, but of what they think needs to be done for the benefit of the whole economy into which they and many other organisations fit. Otherwise, we will end up with lots of different papers, none of which meets at the top. We are trying to stitch everything together in a very short time. Our time is fairly limited, regardless of whether the subgroup meets beyond August, and the expertise that is available is not infinite. We must keep focused.

169. This may be separate to the current discussion, but many parties have frequently referred to financial packages, peace dividends

and so on; I think that Ian Paisley Jnr mentioned that earlier. We must ask ourselves what any economic or financial package or dividend will be used for. It is all very well calling for £100 million or £10 billion or whatever, but we must have a clear idea of what we want to use it for.

170. **Mr McNarry:** It is important — certainly to the Ulster Unionist Party — that this subgroup does not try to negotiate wish lists and requests. Members may recall that a figure of £10 billion was mentioned at the PFG Committee. Dr Farren, you did not want to state a figure when I asked you what you thought, but it is important that we differentiate between the margins of negotiation with regard to a peace dividend and where we go with that. I agree with you to a point, but we must reach a stage whereby we can refer the matter to the PFG Committee. It is for that Committee rather than this subgroup to take it forward. I see that as a hand-over exercise.

171. **Dr Farren:** Speaking through the Chair, I hear the rhetoric about peace dividends all the time, but I have never heard what it means. We have not revealed to each other what we mean, and if at some point we want to pursue them, we at least need to know what it might mean. Whether we agree on how they might be applied is a different matter — that is where the negotiations come in. It is important that we know what it means, rather than simply putting £10 million or £10 billion on the table and then deciding what we will do with it — it will not happen that way.

172. **Ms Gildernew:** It is hugely important that we discuss a peace dividend and what is needed. We must face facts: there has been huge underinvestment in the infrastructure here throughout my lifetime. We must seriously examine where the deficits are and what needs to be done to have an impact on them.

173. What I have heard is no surprise to me. With respect, Mr McNarry and Dr Farren represent constituencies that are closer to Belfast than mine. If they knew the difficulties that face constituencies such as West Tyrone and Fermanagh and South Tyrone, they would realise that there are huge issues there.

174. **Mr Paisley Jnr:** Newcastle is not close to Belfast.

175. **Ms Gildernew:** I did not interrupt you when you were speaking.

176. There are huge issues that need to be addressed. We are not simply throwing out figures. The figure that Sinn Féin put forward is based on clear research and evidence from the Business Alliance and others. It is not merely a figure that we have dreamed up and thrown out there. There is a solid basis behind it.

*11.30 am*

177. **Dr Farren:** With all due respect, I was not denigrating the idea of a peace dividend. I was simply saying that we would need to know what people mean by it.

178. **Mr McNarry:** I do not think that anyone is knocking the issue. I was merely wondering how far the subgroup could take it.

179. When I was growing up, Belfast was sometimes referred to as Beirut, and the streets resembled what is going on in Beirut now, but here we are now. I have been listening to entrepreneurs, business people and the Government on the news, and they have been saying how devastated they are because they had only begun to put Beirut back together and, in particular, the economic infrastructure of Lebanon, but now it is all up in the air because of the violence.

180. People from your side perhaps have a different perspective on a peace dividend than those on my side. I do not see the peace yet.

181. **The Chairman (Mr Molloy):** We need to get back to discussing the economy. Dr Farren's point was that it would be beneficial to know how the money would be used; for example, how it would deal with the infrastructural neglect and other issues.

182. **Dr Birnie:** I agree with Ms Gildernew about the Northern Ireland Committee of the Irish Congress of Trade Unions (NICICTU) attending as witnesses. If I remember rightly, NICICTU has produced an interesting paper on the economy, so it would be worth considering

inviting it, given that we should also have a trade union perspective.

183. The list is very impressive, and I agree that the Business Alliance should attend at an early stage. However, I go back to my earlier point. It may be a misperception on my part, but I do not think so. The Business Alliance has taken a particular view on the question of allowances versus corporation tax. It seems to argue for allowances on the grounds of practicality and what will work with HM Treasury. The Business Alliance seems to downplay corporation tax, and perhaps it is right about that, but maybe not.

184. However, for balance, we need to hear the other view from the industrial taskforce, which we have all heard about through the 'Belfast Telegraph' and other parts of the media, Sir George Quigley and so forth. Someone mentioned that there is no magic bullet, and that is probably right. However, the other view seems to be that bringing the headline rate down to the southern rate, or close to it, would unlock many of the so-called impediments.

185. **The Chairman (Mr Molloy):** Are you suggesting that we should examine those two perspectives rather than having the Minister's attendance?

186. **Dr Birnie:** Yes.

187. **Mr Paisley Jnr:** It would be useful if the witnesses could see a copy of this discussion in Hansard prior to attending the meeting of the subgroup, so that they would have an idea of the type of things that we would like to know. For example, we could ask witnesses how they would apply a dividend to best effect. Then, if we are attracted by their proposals, we could put them to the Ministers in week four. It would be good to get into those issues at an early stage.

188. **The Chairman (Mr Molloy):** Is there agreement that we should circulate Hansard, or a synopsis of it, to witnesses to give them an idea of the type of thing that the subgroup is looking for?

189. **Ms Gildernew:** Is that doable? Is it practical, as dozens of people have been mentioned during this morning's presentation? I



think that witnesses only need a copy of the part that we have been talking about.

190. **The Chairman (Mr Molloy):** The witnesses need to know what evidence we want them to provide. We do not want them to lobby on various issues. Witnesses could potentially come here and talk for two hours without suggesting any ideas for a peace dividend.

191. **The Committee Clerk:** Their invitation letter will contain a copy of our terms of reference and tell them that they can speak only on those three points and nothing else.

192. **The Chairman (Mr Molloy):** Perhaps that would be a better way of doing it.

193. **Mr McNarry:** I come from a business background, and it is about profit and loss. I have noticed, through the period of direct rule and more recently, the emphasis with which business has introduced itself to politics and given itself a political voice. It has been highly critical of many MLAs and of what they do. What we seek from businesses is their advice and guidance. We want to hear what they would do with the changes in the current education system, and what they would do with a peace dividend.

194. All of those things are important, but it is right that we question them and seek their advice and co-operation. We want that; there is no point in sitting with a businessman for an hour, and he walks away thinking: "They're a bunch of flipping dozos, that lot!" [*Laughter.*]

195. OK, a couple of dozos.

196. You have to give him the confidence that he is actually going to divulge things, co-operate and give help.

197. **Mr Paisley Jnr:** For the benefit of Hansard, there are two "p"s in "flipping".

198. **Ms Gildernew:** I do not think that there are any "p"s in the word that he used.

199. **The Chairman (Mr Molloy):** Let us deal with the work in hand. Our first task is to send out the invitations for next Tuesday. Could we finalise that?

200. **The Committee Clerk:** Could we agree the timetable? Are you happy to hear the Northern Ireland Business Alliance from 10.00 am to 11.00 am?

*Members indicated assent.*

201. Are you content to hear the Federation of Small Businesses from 11.00 am until 12.00 noon?

*Members indicated assent.*

202. Are you content to have Liam Nellis from InterTradeIreland from 12.00 noon until 1.00 pm?

*Members indicated assent.*

203. Do you want the Department of Enterprise, Trade and Investment officials, without Maria Eagle, on Tuesday?

204. **The Chairman (Mr Molloy):** What about the task force?

205. **The Committee Clerk:** Or do you want the Economic Development Forum or the Industrial Task Force?

206. **Dr Farren:** We will need both at some stage.

207. **The Committee Clerk:** We could put one in place of the officials on Tuesday, and put the other in on Thursday, if we can get them.

208. **The Chairman (Mr Molloy):** We need some flexibility as regards who is available.

209. **The Committee Clerk:** Do you want the officials from DETI to tell you what they are doing about their economic strategy?

210. **Ms Ritchie:** Could you not bring them with the Minister?

211. **The Chairman (Mr Molloy):** I do not think that we would get them separately. We are looking to get all the others, and then the Minister and her officials at a later stage.

212. **Mr McNarry:** They will be reading Hansard; that is for sure.

213. **The Committee Clerk:** So we will not have the officials at all at this stage? Is that agreed?

214. **Dr Farren:** We could see after next week's meeting.

215. **The Committee Clerk:** We will leave it until then. We will have EDF on Tuesday, or the Industrial Task Force, whatever way availability works out.

216. **Mr Weir:** Could I ask for clarity on something? We are making a substitution on Tuesday, from 2.00 pm until 3.00 pm. With regard to timing on Thursday, we have agreed a third speaker.

217. **The Committee Clerk:** Yes, from 12.00 noon until 1.00 pm. We have the Business Alliance, FSB, Liam Nellis and either EDF or the Industrial Task Force. Shall we keep it to 2.00 pm to 3.00 pm for Tuesday's meeting to give an hour's break for lunch? Are you content?

*Members indicated assent.*

218. On Thursday, we will not have David Hanson, but will we still have officials from the Strategic Investment Board?

219. **The Chairman (Mr Molloy):** That would be important.

220. **The Committee Clerk:** And Leslie Morrison from Invest Northern Ireland?

221. **The Chairman (Mr Molloy):** Yes.

222. **The Committee Clerk:** The other will be one of EDF or the Industrial Task Force. Thursday's meeting should conclude at 1.00 pm. We must have a quick chat, either before 10.00 am or after 1.00 pm, about the list of potential witnesses. What way do members wish to do that? Do members want us to invite them to give written evidence? Do members want to do that before 10.00 am or after 1.00 pm?

223. **The Chairman (Mr Molloy):** We could wait to see how Tuesday's meeting goes.

224. **The Committee Clerk:** There may be some time between witnesses if a presentation perhaps lasts only 45 minutes. For the following week, from Tuesday 1 August 2006, the list of potential witnesses includes NICVA and the Economic Research Institute of Northern Ireland, with a question mark over inviting an economist as a witness; Michelle also mentioned NICICTU. Other people were mentioned, including Martin McDonald from the Rural Development Council and representatives from the road haulage and

freight industry. Do members want to leave all that and make a decision on Tuesday, which would leave a week?

225. **Dr Farren:** Could we put them on notice that they may be asked to make a submission and may be called as witnesses?

226. **The Committee Clerk:** Do you mean that NICICTU should be put on notice?

227. **Dr Farren:** NICICTU should attend, but perhaps the more sectoral areas, such as an economist being called as a witness, could be put on notice.

228. **The Committee Clerk:** I have a list of potential witnesses. Do members want David Ferguson from the Planning Service to make a presentation or a submission?

229. **Ms Ritchie:** A submission.

230. **Mr Paisley Jnr:** A submission, but with a view that he may be called as a witness later.

231. **The Committee Clerk:** Should that also apply to Martin McDonald from the RDC? I shall write to the organisation that represents the road haulage and freight industry to request a submission. Quarry products are also on the list, and young people were mentioned. Should we write to the Northern Ireland Youth Forum?

232. **Mr McNarry:** Yes, if that was what was agreed.

233. **Dr Farren:** The Youth Council for Northern Ireland would be the correct channel, would it not?

234. **Mr McNarry:** If there were time, and if Maria Eagle is willing and the subgroup agrees, can she double up on education? We need to discuss certain issues with her.

235. **The Chairman (Mr Molloy):** It is important to give Ministers some notice, because the August holidays mean that availability will be an issue.

236. **The Committee Clerk:** Do you want Maria Eagle to double up and discuss both education and DETI?

237. **Mr Weir:** She holds the brief for DETI too.

238. **Mr McElduff:** I feel strongly that education, skills and experience in the South should be factored in.

239. **The Committee Clerk:** Perhaps Peter Gilleece will write a paper on that for us.

240. **Dr Farren:** May I suggest another organisation because of its overarching responsibilities? Reference has been made to the tourism industry. It may be worth hearing from Tourism Ireland and the NITB because tourism touches on the constituencies of most members. Tourism Ireland is a North/South all-island body that came from the Good Friday Agreement.

241. **Mr Paisley Jnr:** Adding to what Seán has said, I think that we should put the Planning Service and the NITB on notice that they may be required to give evidence. Although we will receive their submissions, we would probably like to hear from them as well. We could extract strategic ideas from them. Perhaps they should be called on week four? I read an article in the 'Belfast Telegraph' about sick leave and holiday leave, and some of those officials may take long holidays.

242. **The Chairman (Mr Molloy):** The Planning Service impacts across the spectrum. Tourism, agriculture and every aspect of life have planning issues.

243. **Mr Weir:** In relation to scheduling, I appreciate that we may be looking for specific people in some organisations. However, the NITB and the Planning Service are more insulated from holiday issues and will be able to provide witnesses because they have more staff.

244. However, if we want to hear from specific individuals, such as Maria Eagle, we should ask them to check their timetables urgently. If she is on holiday, that will have an impact on the timetable.

245. **The Committee Clerk:** What are we agreeing to do? Shall we put the Planning Service and the NITB on notice?

246. **Mr Weir:** Perhaps we should discuss that issue next week. However, if we identify specific people, we need to chase them up quickly.

247. That could be done now, particularly as, at some stage, we will want to ask Maria Eagle to attend. We need to contact her office as soon as possible to find out her timetable.

248. **The Committee Clerk:** David mentioned renewable energy. The Enterprise, Trade and Investment Committee of the previous Assembly held an inquiry into energy, and Brian Norton from the University of Ulster at Jordanstown, who is an expert on that subject, attended. Should we ask him for a submission?

249. **Dr Farren:** Brian is now president of the Dublin Institute of Technology and may not be available. However, there is an umbrella group for the renewables industry, but I do not know its title. The wind farms and such like are members of it. The Department will know.

*11.45 am*

250. **The Chairman (Mr Molloy):** We will move on to other business. We discussed issuing a press release about the subgroup's first meeting.

251. **The Committee Clerk:** We have drafted a press release, and if members want it sent out, we can do that.

252. **The Chairman (Mr Molloy):** A press release would be useful for organisations that might want to make presentations to the subgroup.

253. **The Committee Clerk:** Anyone who clicks on the Committee on the Preparation for Government's page on the Assembly website will be directed to the subgroups. The minutes of proceedings, the press release — if issued — and Hansard will all be available to the general public.

254. **Ms Gildernew:** The statement to the press is grand and factual, but it does not cover the work that has been done. The chart shows that we are hitting the ground running and that we intend to dedicate ourselves to this matter over the coming weeks and get good work done. It would help if people could see that we are serious about the subgroup and the work involved.

255. **Mr Weir:** Can I suggest two things? First, I appreciate the point made about the draft work programme. Reference should be made to the

fact that the subgroup has agreed to meet twice a week. A complication arises because some people have not yet been contacted, and therefore I do not think that it can be released.

256. **Ms Gildernew:** I am not suggesting that.

257. **Mr Weir:** I was not suggesting that you were. We need to make specific reference to the fact that the subgroup will meet twice a week and will continue its work throughout the summer. The press release would also be useful as it would save any confusion by having the press state that all parties were represented at the first meeting. There may appear to be a boycott by one party — I could say: “not the usual suspects”.

258. **The Chairman (Mr Molloy):** That would be useful, and it would also underline that the subgroup will take evidence throughout the summer.

259. **Dr Farren:** Touché.

260. **The Chairman (Mr Molloy):** Are we all agreed on that?

261. **Ms Ritchie:** Should we not also specify the terms of reference of the subgroup and that we will be seeking evidence from other groups as well? We may benefit from the advice and expertise of groups not mentioned in the press release.

262. **The Chairman (Mr Molloy):** It might be worthwhile to invite other groups to make written submissions. They could then be called to give evidence if we thought it necessary.

263. **Dr Farren:** Will the contribution of higher and further education be captured in any of the submissions? Barry mentioned the Southern experience, but we need to hear what our Northern institutions are doing.

264. **The Chairman (Mr Molloy):** That would be important, particularly with the Minister’s line.

265. **Dr Farren:** Shall we write to Queen’s and the University of Ulster?

266. **The Committee Clerk:** We have suggested bringing in people from Queen’s University.

267. **Dr Farren:** Yes, I see that. Is that just Queen’s?

268. **The Committee Clerk:** No; that means people from Queen’s and the University of Ulster at Jordanstown (UJU). It is a joint briefing.

269. **The Chairman (Mr Molloy):** Do they have some sort of a joint approach?

270. **The Committee Clerk:** There is a joint briefing between the Research and Regional Services directorate in Queen’s and the Office of Innovation and Enterprise at the University of Ulster.

271. **Dr Farren:** OK. Is the further education sector involved through the Association of Northern Ireland Colleges (ANIC)? If so, that means that we would get them all.

272. **The Committee Clerk:** We will get a submission from that group as well.

273. **The Chairman (Mr Molloy):** We also had a letter for the Secretary of State.

274. **The Committee Clerk:** That is a courtesy letting him know that we intend to invite his officials.

275. **Mr McNarry:** Does the letter say: “Dear Peter, while you are lying on the beach sunning yourself”?

276. **The Chairman (Mr Molloy):** Are members content with that letter?

*Members indicated assent.*

277. **The Committee Clerk:** Are members content for us to make changes to the press notice and issue it.

*Members indicated assent.*

278. **The Chairman (Mr Molloy):** Is there any other business?

279. **Mr McNarry:** If the room is going to be as warm as it is now, will we get air conditioning?

280. **Dr Farren:** The heatwave may have passed.

281. **The Committee Clerk:** We could borrow an air conditioner that is used for some of the server rooms, but it can be noisy, so it may affect Hansard.

282. **The Chairman (Mr Molloy):** The next meeting is scheduled for Tuesday. To clarify, as happens in the Preparation for Government Committee (PFG), the Chairman who is observing will also sit in on the next meeting. That is so that the Chairmen can be continually involved.

*Adjourned at 11.52 am.*





## Tuesday 25 July 2006

### Members:

The Chairman, Mr Francie Molloy  
Dr Esmond Birnie  
Mrs Diane Dodds  
Dr Seán Farren  
Mr David Ford  
Ms Michelle Gildernew  
Mr Mitchel McLaughlin  
Mr David McNarry  
Mr Sean Neeson  
Mr Edwin Poots  
Ms Margaret Ritchie

### Witnesses:

Mr Frank Bryan	}	Northern Ireland Business Alliance
Mr Declan Billington		
Dr David Dobbin		
Mr Stephen Kingon		
Dr Michael Maguire		
Mr George Dorrian	}	Federation of Small Businesses
Mr John Friel		
Mr Glyn Roberts		
Mr Aidan Gough	}	InterTradeIreland
Mr Liam Nellis		

*The subgroup met at 10.08 am.*

*(The Chairman (Mr Molloy) in the Chair.)*

283. **The Chairman (Mr Molloy):** I welcome members and remind them to switch off their mobile phones. The session is being recorded for Hansard, and mobile phones interfere with the recording equipment.

284. The mother of Cathie White, the Committee Clerk at last week's meeting, died on Friday and was buried yesterday; there is a sympathy card circulating if members wish to sign it.

285. **The Committee Clerk:** We have received apologies from Alasdair McDonnell — Seán Farren will attend in his place — and from Ian Paisley Jnr and Peter Weir, who will be substituted by Diane Dodds, who will be

slightly late, and Edwin Poots, who will be here in a moment or two, as will Michelle Gildernew, who is on her way back from Westminster.

286. **The Chairman (Mr Molloy):** Members will have copies of the draft minutes of the meeting held on 20 July. Can they be agreed?

*Members indicated assent.*

287. **The Committee Clerk:** Members should bear in mind that the minutes will appear on the website and will be available to the public.

288. **The Chairman (Mr Molloy):** The Economic Development Forum (EDF) was invited to attend this session but declined. As it is an overarching body, and as the subgroup will be taking evidence from a number of its constituent groups, it felt that its attendance would be inappropriate.

289. **Mr McNarry:** For the record, who are “Hutchinson, Graham” and “Lamb, Edel” who received a copy of the e-mail? This is an Assembly Committee, and this e-mail has been circulated to people that I do not know and those sitting at the top table do not know. Who are they and for what purpose have they been circulated the e-mail?

290. **The Committee Clerk:** I have just arrived back, David, so if you pass me a copy of the e-mail I will check it out.

291. **Mr McNarry:** It is on the file.

292. **Dr Farren:** I recognise one of the names: Graham Hutchinson is associated with the EDF.

293. **The Committee Clerk:** I think that they are all associated with the EDF.

294. **Dr Farren:** It would be appropriate for them to be informed, since the EDF was invited. They are the civil servants who service the forum.

295. **The Committee Clerk:** That is the explanation.

296. **Mr McNarry:** If that is the case, fine. I am not sure that I would expect them to be circulated on this issue.

297. You could infer from the EDF communication that as it claims to represent the majority of key players, perhaps we should dispense with inviting the key players and just ask the EDF. It has a dual role. However, I do not want that interpretation because the EDF is presumptuous in its communication. It is important that the EDF attend as a representative, stand-alone group.

298. This subgroup is an offshoot from the Preparation for Government Committee, to which we are asked to report back. I cannot accept that, in making preparations for Government, it would be inappropriate to ask the people whose primary role is to provide advice for Ministers to share that advice with the subgroup. It is an important role, and I would like to know what advice the EDF is giving to Ministers.

299. Will the subgroup concur that we advise the EDF that we require a senior presence to co-operate with the subgroup?

300. **Mr Neeson:** I would not get so hot under the collar. All of the bodies that sit on the Economic Development Forum are coming to give evidence. Members of the subgroup have attended meetings of the EDF on occasion. It would be duplicating the evidence given to us by the other bodies that have been invited.

301. **Dr Farren:** I agree more with what David McNarry said. The advice of the EDF is not given to Ministers in private. A publication — which is a distillation, I take it, and an agreed document — come from the consultations with the EDF. Since we will not be in a position to reinvent the wheel, and since we have a short time to make an initial report, it would be helpful to have a sense of how the EDF arrived at this consensual document. That does not mean that we agree with it or that all of the members represented on the forum agree with it. However, it would be helpful to hear some of the independent voices represented on the forum, as they may not all agree with everything. We can study what the EDF produces ourselves, but it

would be helpful to hear from some of the key players in it and then arrive at our own decisions.

302. If this subgroup manages to produce even a single document, it will be one for which people have had to tuck and weave their own views and allow them to be meshed with those of others. All policy documents are compromise documents, based on the input of those involved.

303. I find the situation strange. Perhaps EDF could come before the subgroup at a later date because, of course, the Minister has been invited to attend later as, regrettably, she is not available until September.

*10.15 am*

304. **Mr McLaughlin:** My experience of EDF is that it comprises a disparate group of people and there are significant internal dynamics. Its published report — to which Seán referred — was based on a loose consensus, and I suspect that it would not be the most difficult task to get amongst them and discover that, at times, there are radical differences of opinion. The chronology that Seán suggested might allow this subgroup the opportunity to talk to EDF, but perhaps we should talk to its representatives at the end of the sequence, as the work of the subgroup is developed.

305. EDF may be reluctant to come forward because it does not feel that it has a position that is coherent and cohesive enough to withstand rigorous cross-examination. EDF processes its work by commissioning and discussing reports and, in my experience, they quite often disagree on their content. We could end up spending a lot of time exploring EDF's disagreements, rather than concentrating on issues that are salient and useful to the subgroup.

306. **The Chairman (Mr Molloy):** Yes; we could spend time refereeing. It seems that it would be more beneficial if EDF were to meet as a group and then come before the subgroup. Seán's point about EDF coming here later is a possibility.

307. **Dr Birnie:** I will be brief, because I agree with David and Seán. It is relevant to us to know what advice EDF is giving the Secretary



of State, and it would be a pity if its real reason for declining the subgroup's invitation was that it does not want the public — through the subgroup — to have access to that.

308. In a sense, EDF is the current substitute for the old Northern Ireland Economic Council (NIEC). If NIEC were still in existence, we would have had no difficulty in getting its representatives to come to give evidence. It indicates a regrettable change in how advice is given on economic policy-making here. It has become less transparent.

309. **The Chairman (Mr Molloy):** Are members happy for me to write to EDF to invite its representatives here and to make the point that the subgroup wishes to speak to them due to their experience in advising Ministers? The subgroup cannot compel a witness to come forward; it can request that it does so.

310. **Mr McNarry:** We said from the outset that we did not want lobby groups coming here to lobby us. We said also that we would facilitate those who did not want to make public statements but who would be content to give statements less publicly. It is important that EDF attend the subgroup, and I thank those who have supported that request. I know that we cannot compel EDF to attend, but I put on the record that even though it may be a ministerial decision, I will take a dim view if it refuses to attend. I see no reason for its refusing.

311. I do not wish to be pedantic about it. Sean Neeson is right to say that there is no need to get hot under the collar; I am not getting upset about it. However, its correspondence to the subgroup is a “go and get lost” letter, and I do not like those.

312. **The Chairman (Mr Molloy):** We will proceed, because there are evidence sessions this morning.

313. To deal with the issue of privilege, I restate that limited privilege arrangements apply to subgroup members, in the same way as in the Assembly. However, those arrangements do not extend to those who give evidence to the subgroup. Therefore, I will point that out to today's witnesses.

314. Members have copies of the list of potential witnesses. Also, I can advise members that we hope to receive the Hansard transcript of this meeting within 24 hours.

315. **The Committee Clerk:** Members should report any suggested amendments to the transcript to Colin Jones on Ext. 21767 within 24 hours. The 24-hour turnaround for suggested amendments will apply to witnesses also.

316. **The Chairman (Mr Molloy):** Therefore, if members have any comments to make or questions about the evidence, they should contact Colin Jones.

317. Alan will now take us through the revised programme of work.

318. **The Committee Clerk:** We did not receive many phone calls with additional suggestions for the transcript of last week's meeting. However, a lot of suggestions are contained in the transcript. We have listed those and circulated them to members. There are two lists, one of which shows confirmed evidence sessions. Members have also received the revised work programme, which includes the confirmed evidence sessions.

319. If the subgroup runs with the idea of three evidence sessions per meeting and two meetings per week, the revised work programme offers a minimum of eight slots to take evidence from witnesses. I suggest that three evidence sessions are as many as members would want to take in one meeting, as it would mean three hours of witnesses plus the other business of the subgroup.

320. In theory, members could invite three groups of witnesses on 10 August, but that would leave us with limited time in which to produce the subgroup's report. From speaking with Committee on the Preparation for Government staff, my understanding is that there may be a couple of day's leeway on the 18 August reporting date. Therefore, I have suggested that in week commencing 15 August the subgroup provide a draft report, outlining its recommendations and conclusions. If PFG agrees those, it would allow us to fill in the details. It is really the recommendations and conclusions on which we need to have absolute agreement and clarity.

321. If we run with that approach, the final draft report will be ready for members on 17 August, which is the day before the deadline. It is a tight timescale, particularly if members decide to include an extra evidence session on 10 August.

322. The list of confirmed evidence sessions has been circulated to members. The transcript of last week's meeting highlighted that there are a lot of other potential witnesses. Given that the subgroup has only a month to conclude its business, it is important that members focus strategically on hearing evidence from appropriate witnesses in order that the subgroup should meet its terms of reference.

323. There have been many cross-party suggestions that it would be useful to include the doers — those people who are successful practitioners — in the list of witnesses. We have listed those people among the potential witnesses. I suggest that members include some of those people and groups. However, it is for the subgroup to determine its priorities. There is a minimum of eight evidence slots, and a maximum of 11. It is for members to decide whom it would like to invite, on top of those already invited.

324. **The Chairman (Mr Molloy):** Do members have any suggestions as to who would be a priority?

325. **Dr Farren:** Are the first sets of suggested witnesses included in the sessions identified so far?

326. **The Committee Clerk:** Yes.

327. **Dr Farren:** Therefore, we are moving through the additional proposals and highlighting any people or groups not there whom we think should be there.

328. **The Committee Clerk:** Yes. If the three Departments are taken separately, there are 12 groups, meaning that there is one witness more than the maximum number of evidence sessions. It may be that members would wish to invite just one of the economists. Mike Smyth was mentioned quite a lot during last week's meeting.

329. **Dr Farren:** Would it be possible when inviting the Mike Smyths of this world to have Mike Smyth and John Simpson together?

330. **The Committee Clerk:** That would be subject to their diaries.

331. **Dr Farren:** If that were the case, I suggest inviting John Bradley from the Economic and Social Research Institute (ESRI) in Dublin, who has been involved as a consultant to the former Northern Ireland Economic Research Centre. Esmond and others might be familiar with his work on the all-island perspective.

332. He contributed to a conference in Armagh not so long ago on this very subject. I would like to propose him, and I just wonder whether the three of them could be taken in one session. Perhaps it could be lengthened by half an hour, so that we would have both the local and wider perspectives, which are essential.

333. **The Chairman (Mr Molloy):** Are members content with that? We will bring in all three — depending on their availability, of course.

334. **Ms Ritchie:** I think we could then counter-balance that by hearing what practitioners have to say — such as the Quinn Group; William Wright's company, Wrightbus Ltd; and perhaps Moy Park.

335. **Mr Neeson:** I know through the Assembly Business Trust that Ivan McCabrey of Mivan has been very active with international success.

336. **Dr Farren:** Are all strategic interests represented? I suggested John Bradley not only to have another name but to have a strategic overview. Is there any other individual, a doer as it were, who could add to what the existing set of doers are going to say in a strategic sense? It is not personal stories that we want; it is what those personal stories can teach us about the strategic direction to be followed. That is important.

337. **The Chairman (Mr Molloy):** All of it has to be kept within the terms of reference of the subgroup. Are there any other names?

338. **Mr Poots:** Graham Gudgin is another name. He was involved with the last Executive

and has considerable knowledge about people who are advisers.

339. Tourism is an area in which we anticipate significant growth, and we should be getting significant growth. I should like to see the tourism industry represented via written and oral submissions. Agriculture should also be represented, as is still the largest single industry in Northern Ireland's manufacturing economy. The freight haulage industry is an industry with particular problems, but it is of critical importance given Northern Ireland's peripheral location. It would be useful to get oral or written submissions from those three groups.

340. **The Chairman (Mr Molloy):** The Ulster Farmers' Union will link in agriculture when we come to hear from the trade unions.

341. **The Committee Clerk:** As mentioned last week, the witnesses on the list are all organisations and entrepreneurs. The subgroup may want to consider whether the Northern Ireland congress or whoever should be included as a key witness.

342. **Dr Birnie:** Chairman, the Northern Ireland Committee, Irish Congress of Trade Unions (NIC.ICTU) has produced a report on the economy.

343. **Mr Poots:** I do not think that the Ulster Farmers' Union is associated with the Irish Congress of Trade Unions. It is not a public-sector body; it represents a particular industry.

344. **Mr McLaughlin:** Perhaps we could consider inviting submissions from the three cross-border organisations. They represent a significant social and economic interest. I have done some work with these groups over the years, and I am aware that they have up-to-date material that would be relevant to the work of the subgroup. We should not crowd the calendar, but they would be glad of the opportunity to write to the subgroup and make a submission.

345. **The Committee Clerk:** In that case, we will ask them for it.

346. To recap for the benefit of members: if we work with a maximum of 11 including the meeting on 10 August, we have more than three

per session at this stage, and 13 if we include NIC.ICTU and the Ulster Farmers' Union as oral submissions. Then there is Mivan and Ivan McCabrey, so you have got 14 at the moment.

347. Therefore, members can choose to prune the list of potential witnesses, or we can invite the full list and organise an additional meeting.

348. **The Chairman (Mr Molloy):** It may be that some of the potential witnesses will be unable to attend within the time available to the subgroup.

*10.30 am*

349. **Mr Ford:** Seán Farren made a good point a few minutes ago. We need to see how witnesses might fit together. For example, Moy Park might fit into one neat section with the Ulster Farmers' Union. Hearing witnesses such as those together would provide us with different aspects of the one basic protest.

350. **The Chairman (Mr Molloy):** Yes. They might tell also of associated problems.

351. We will leave that at this stage to let the clerks try to piece our discussions together.

352. **The Committee Clerk:** To give people the opportunity to meet with others if they have to, and to make written submissions, we need to issue the invitations today.

353. **Dr Birnie:** Chairman, Seán suggested John Bradley in addition to Mike Smyth and John Simpson. If any of them are not available, I suggest you look to the Economic Research Institute of Northern Ireland (ERINI), and possibly, in that context, to Prof Richard Harris, who has done some studies on investment incentives.

354. **The Chairman (Mr Molloy):** OK, representatives from the Northern Ireland Business Alliance will make the first presentation. We will ask them to complete their presentation and take members' questions. We are trying to tie it down to one hour.

355. **The Committee Clerk:** Once we start, the red button will be pressed, meaning that the session will be transmitted across the Building. Members should bear that in mind when deciding what to say.

356. **Dr Birnie:** I have always done that.

357. **Mr McNarry:** No four-letter words, Esmond. *[Laughter.]*

358. **Dr Birnie:** You keep me in order, then.

359. **Mr McNarry:** I will.

360. **Dr Birnie:** Don't let me get too excited.

361. **The Committee Clerk:** The button has been pressed.

362. **Dr David Dobbin (Northern Ireland Business Alliance):** Good morning.

363. **The Chairman (Mr Molloy):** Gentlemen, you are very welcome. Sorry for keeping you a little late. We have been trying to finalise the other witnesses that we wish to invite to give evidence to the subgroup. Hansard is recording this session, and its transcript will be available to you within 24 hours to allow you to make any corrections or amendments that you might want. Although members have limited privilege in this subgroup, unfortunately, those giving evidence do not have any privilege whatsoever. *[Laughter.]*

364. I am sure that will not make any difference to you. Would you like to introduce your team and make your presentation?

365. **Dr Dobbin:** Before we start, may I check the timing? As we are starting late, what is our target?

366. **The Chairman (Mr Molloy):** One hour.

367. **Dr Dobbin:** Thank you. Our delegation is slightly depleted due to holidays. The Northern Ireland Business Alliance represents the Confederation of British Industry (CBI); the Institute of Directors (IOD); the Northern Ireland Chamber of Commerce; and the Centre for Competitiveness. I am David Dobbin and I am a past chairman of the CBI.

368. My colleagues and I plan to speak for 10 or 15 minutes, leaving most of the hour for discussion with, and questions from, the subgroup. I hope that many of you attended our presentation to the Assembly on 16 May. Today's submission builds on that presentation. I understand that you have copies of it.

369. There is widespread consensus between business, Government and the various economic commentators that the apparently strong performance of the local economy conceals underlying weaknesses and problems that must be addressed. Those issues are: an over-dependence on the public sector and public expenditure; an underdeveloped private sector that is relatively unsophisticated; low levels of business start-up and spending on research and development and innovation; and low levels of labour market participation or economic activity, as it is known.

370. That is also characterised by relatively high levels of long-term unemployment and, indeed, some areas of the Province where there are low levels of growth and economic activity.

371. Finally, we believe that, under current UK Exchequer pressure, the subvention that we rely on to maintain our economy at current levels is under threat. Projections carried out by economists working for the Economic Development Forum show that if we maintain current Government policies, we will not be able to close the prosperity gap between Northern Ireland and the rest of the UK or Southern Ireland.

372. We contend that radical policy changes are required if we are to change the trajectory of the local economy. When we met the Assembly, we talked about creating 140,000 quality private-sector jobs and about trying to grow the economy at a rate of 5%. There has been a great deal of debate between economists since then about whether those figures are correct. We suggest that the Assembly must confirm the challenges ahead with regard to targets for job creation and economic growth and establish how the proposals from various groups would address those. Some form of study or work must be done to ensure that the future policy of a devolved Executive is driven by evidence and fact as opposed to opinion.

373. The challenge ahead is to close the gap that exists in economic activity, wages and gross value added per person; to reduce long-term unemployment; and to ensure that there are sufficient quality jobs to employ the many young people that have to leave Northern



Ireland each year to find work in the rest of the UK and beyond.

374. We believe that the gap can be best closed only in the context of devolution. That is because we have unique problems that are quite different from those in other regions of the UK. We have a land border with Southern Ireland and the legacy of civil unrest. We need a tailored strategy for this region. We do not believe that Northern Ireland Office and direct rule Ministers applying national policies will do any better than achieve a similar level of growth to that in the rest of the UK. We need to grow faster to close the gap.

375. Furthermore, to re-balance the economy we must encourage private-sector activity so that we are less dependent on the public sector and public expenditure. Over the next five minutes we will focus on how we can achieve that.

376. There are no silver bullets; there is no quick fix. Whatever we do to address this problem is part of a long-term process. We believe that that would be best achieved by some form of social partnership between the public and private sectors, business and elected representatives, and trades unions and the voluntary sector.

377. A business-friendly environment must be created that supports the conditions for growth and is attractive to international investors, who must be persuaded that we have a stable and safe investment location. To do that, we need political stability and an end to paramilitary activity, sectarianism, criminality, disorder and unrest. We must normalise this society so that it is as welcoming as any other part of Europe to businesses, visitors and people coming to live here.

378. If we are going to move from a public- to a private-sector-led economy in an increasingly competitive world and create the growth and jobs that we have talked about, we must do a number of things. This is the core of what we are saying. We need to promote proactively investment in business formation and growth. We need a flexible and competitive fiscal environment. A skills strategy and action plan that matches the future, rather than the past,

needs of the community and the economy, is necessary. We need a sustained investment in infrastructure. We must increase the levels of innovation and technology transfer, and ensure that the changes that take place in the public sector support the transition to a private-sector-led economy.

379. Finally, we must ensure that we have flexibility and responsiveness in regulation and planning.

380. We must ensure that we exploit the opportunities that exist on the island for all-island markets and an all-island economy. My colleague Stephen Kingon, who is chairman of the Northern Ireland Centre for Competitiveness, will now deal with the fiscal issues.

381. **Mr Stephen Kingon (Northern Ireland Business Alliance):** As David has said, one of the problems that we face is increased global competition in a competitive fiscal environment. Northern Ireland has some financial incentives, but we have a fiscal regime that is not as competitive as any elsewhere. Puerto Rico has a corporate tax rate of 1.5%, and approximately 30 countries have reduced their tax rates in the past 18 months. Even the emerging eastern European states are trying to compete on tax rates.

382. David said that, although it is fundamental that we are attractive to inward investment, we must encourage investment through our indigenous business. Obviously, a competitive tax rate is one way in which to do that. Issues arise such as EU competitiveness and how the sovereign tax rate can be changed, but there are other ways in which to create an effective tax regime.

383. As a developed country, we must play up the value chain, so in the key areas of innovation, skills technology and export orientation, tax credits can be used to encourage investment by businesses and to promote Northern Ireland as an attractive centre of excellence for inward investment.

384. The Chancellor has previously allowed accelerated capital allowances in Northern Ireland. That he has differentiated at a sub-regional level means that a precedent has been

set. To encourage business investment, the re-introduction of accelerated capital allowances would assist us. There should be some fiscal flexibility in some of the indirect taxes to allow for, as David mentioned, anomalies that arise on the island because of the land border and the tax regime. We should look at how we effect some of the indirect taxes. Moreover, other areas of flexibility could be covered by looking at, among other things, the old enterprise zone requirements.

385. **Dr Dobbin:** Declan will now comment on infrastructure and innovation.

386. **Mr Declan Billington (Northern Ireland Business Alliance):** I want to focus on competitive infrastructure — how infrastructure can help us to become globally competitive, how it can help economic growth and possibly even employees' economic participation.

387. We are an island that is next to an island that is next to Europe, and that puts business at a disadvantage when competing in a global economy. Moreover, versus Asian and eastern European markets, we are not a low-cost economy, so we must concentrate on value. Value is about the supply chain as well as about the product. If we think about the supply chain, Northern Ireland focuses on service. For Northern Ireland to move up the value-added chain — competing in Europe and globally — it must be in a position to enter time-sensitive markets, in which the customer is prepared to pay a premium for the service.

388. Taking international air routes from Northern Ireland as an example, any business that exports services and consultancy, or even technical support for products, must be able to support those through prompt delivery of skills to the customer anywhere in the world. Where businesses operate off regional hubs, time is added. When time is added, cost is added. The fact that our international air-route structure is not as well developed as others elsewhere disadvantages us in the market, and that must be rectified.

389. The supply chain is very important to manufacturing locations that export to Europe. Businesses do not want to risk running off an

infrastructure that may create problems for them in getting their products to ports for export. Missing a connection out of Belfast could add two days to the time it takes to deliver products to continental Europe — seven days as opposed to five days. Therefore, if we want to grow the economy of Northern Ireland, infrastructure will play a critical part.

*10.45 am*

390. If we want to address employment and move industry deeper into the Province, we will have to improve our roads infrastructure to encourage businesses to move further afield — poor infrastructure puts our businesses at a competitive disadvantage. Poor infrastructure also means that our businesses may not be able to locate in rural areas in order to create employment there, because people measure travel to work by time rather than by distance. Building a good infrastructure gives people more opportunities for employment outside their communities. They would also bring greater wages into their communities, which, in turn, would stimulate local service jobs — restaurants and supermarkets — which might involve more local participation in the community. That is why infrastructure plays an important part in competition and in addressing the problems of unemployment black spots.

391. We have talked about the physical infrastructure, but the knowledge infrastructure — not just the bricks and mortar of the universities — is also important. If they want to compete on the international stage, they need to have critical mass and be adequately resourced. That is not just a question of facilities but also of third- and fourth-level education and of the support available for research and development posts. Multinationals that want to invest in research and development will want to know that there is a critical mass of graduates and postgraduates to support it. My colleagues will pick up on the issues surrounding skills and education.

392. **Dr Dobbin:** I stress that we need a world-class infrastructure with electronic connectivity, and we are starting to see that locally in good measure. As Declan said, we need the necessary

hardware in our roads, ports and airports. One of the key elements in our presentation is that public-sector behaviour can have a big influence on how we develop the private sector. I would like to ask Frank to comment briefly on public-sector reform and how we can refocus the public sector to help to drive the economy.

393. **Mr Frank Bryan (Northern Ireland Business Alliance):** Thanks, David. I will touch briefly on where we are at the moment. There is consensus that, as we move into the twenty-first century, what we have is simply not good enough. There is also consensus that it is not healthy for an economy to be over-dependent on the public sector: at the moment, more than 60% of our gross domestic product depends on the public sector. That has many spin-off effects on how we operate as an economy.

394. The original narrow remit of the Review of Public Administration did not make sense. The figures show that the review accounts for only 5% of the public spend that currently goes through the councils, although that percentage might rise to 10% through the Review of Public Administration. If we are serious about making changes, we need a complete overview of how the public sector in Northern Ireland is run. From a business perspective, we welcomed recent comments that a debate can start that will go to the heart of the Civil Service here.

395. There are opportunities for designing public-service delivery around the citizen. In order to manage change — and we take into account the very difficult transition that would be required — it would be necessary to tie into private-sector expertise. We see an opportunity to use the reform agenda to drive an economic agenda. That agenda may take many shapes and forms, but if some service delivery could be outsourced — for example, shared services among the various Departments — we could develop the necessary expertise here in Northern Ireland. As the same process evolves across the water, we might be able to tender for such outsourced service delivery, and that would provide the opportunity to develop our economic growth and employment.

396. **Dr Dobbin:** Finally, for the last piece of our oral submission I am going to ask Michael Maguire, the past Chair of the Institute of Directors, to make some comments about skills.

397. **Dr Michael Maguire (Northern Ireland Business Alliance):** The Business Alliance has been working with the Economic Development Forum for a number of years on moving forward on several dimensions of the economy. My interest is in skills and education.

398. Our starting point is the skills strategy document from the Department for Employment and Learning. The strategy aims to ensure that individuals have the skills to enhance their employability; that employers have access to the necessary skills to develop their businesses successfully within the context, as we have already heard, of foreign direct investment, increasing the strong entrepreneurial base, SME growth and literacy and numeracy.

399. We support the skills strategy. We believe that the four themes are important in trying to push forward the skills and education agenda: first, understanding what skills are required for the development of the economy both in the short and long term; secondly, improving the skill levels of the workforce; thirdly, improving the quality and relevance of education and training provision; and, fourthly, tackling the skills barriers to employment. Anyone who thinks about the skills debate could not challenge that these are the right things to do in relation to the skills agenda.

400. However, there are issues about implementing the skills strategy, we would like to bring those to the subgroup's attention. First, we need a responsive education and training infrastructure to meet existing employer needs. For example, large employers are currently looking for individuals with software development skills sets. Secondly, we need to think about the longer-term needs of the economy, whether it is in the life sciences, technology or nano-technology. Work is being undertaken to think about the future skills needs of the economy, and we would reinforce the importance of that work. We need to set out our stall and say: "This is the space we are in, and this is

what we want to do in relation to training and education.”

401. It was of some concern to the Economic Development Forum, and the subgroup of which I am Chairman, that roughly 97% of the skills strategy expenditure focuses on one theme: improving the quality and relevance of education and training. There are two issues. First, it means that three of the themes are accounted for by 3% of the expenditure, and we need to ensure that in the education and training budget the right moneys are being placed in developing the skills and training infrastructure. Secondly, the 97% expenditure is largely accounted for by universities and further education provision.

402. The business community believes that there is a need for a responsive education system. There needs to be a direct alignment — and a much stronger link — between the strategic intent of Northern Ireland’s economic development needs and what is happening within further education colleges and the university environment. A responsive training and education system is important.

403. I would also reinforce the importance of literacy and numeracy in supporting the economic growth objectives of the local economy. For us, it is a critical factor in building the generic skills base required to meet business needs both now and in the future. My final point relates to that context and to what I have said already. I would like to emphasize the importance of vocational skills in meeting the immediate and longer-term needs of the economy.

404. **Dr Birnie:** Gentlemen, your preference seems to be for tax credits, as Dr Dobbin termed it, as opposed to a corporation tax headline change. If that is so, why is that your preference? What evidence is there as to how elastic the supply of local investment and foreign direct investment (FDI) would be to such changes?

405. In other words, if we can boost net profits by 1%, what percentage growth would we see in the level of investment in Northern Ireland?

406. **Mr Kingon:** If we were able to achieve a very competitive rate of corporation tax —

whatever that may be — that would be the option to go for. For several reasons, we have concerns about the current tax rate. The Internal Revenue Service (IRS) in the United States is taking a test case against Apple Computers, basically stating that if the intellectual property of products rests in the States, it does not matter which low-tax regime one goes to. If that case is successful, putting all one’s eggs in the rate basket will lead to difficulties.

407. So far, there has been no allowance at the EU Competitiveness Council for a sub-regional rate; the sovereign tax rate must be changed. As a practicality, given that Northern Ireland’s corporate tax take is £500 million versus £49 billion in the UK as a whole, the Treasury is unlikely to reduce the overall rate. We are being pragmatic and practical. If we could get it, a zero tax rate would be fine.

408. Existing tax credits are not flexible enough, and their definitions are too narrow. We must broaden and enlarge the areas to which tax credits apply. We have said that innovation is very important. There is an R&D tax credit, but most businesses do not claim it. The definition is too narrow, and half of the costs are excluded. We are seeking a redefinition of that credit so that more companies will claim it and so that it will be more beneficial.

409. We mentioned the need to examine matters such as skills strategies. We need companies to invest in training and development, particularly our smaller SME businesses. To encourage them to do that, we would seek some incentives through tax credits. The benefit of the tax credits is that they encourage people to invest and spend in the areas that are required to move the economy on. If you do not spend, you do not get. If we simply have a go at the tax rate, we will not encourage those expenditures. We are being pragmatic. However, if someone said that there was a 1% or a 0% tax rate —

410. **Mr Billington:** I would add that corporation tax is generally associated with FDI (foreign direct investment), and the Chancellor Gordon Brown stated that we did a very good job in creating 85,000 jobs over the last 10



years. While there is some discussion, the Business Alliance reckons that 140,000 new jobs will be needed over the next 10 years. To achieve that, we must basically buy in business, which means FDI, and fiscal incentives could help with that. We should not narrow ourselves to just one tool: corporation tax.

411. The Assembly noted fuel duty as an option. There are a number of fiscal tools available. We must decide on which one is the best fit for bringing business in; which one is the best fit for taking small businesses and growing them rapidly; and which one is the best fit for helping businesses at a certain critical point to make the next step.

412. Rather than coming up with a solution without understanding the problem, it is important that work is done to identify the best tool to create growth by sector and by size of business. That is the package of incentives for which we should be arguing. That includes a corporation tax that is deliverable and capital allowances to get the same result in a different way. We should keep this discussion broader than just focusing on corporation tax.

413. **Dr Birnie:** What is the evidence that tax credits work?

414. **Dr Dobbin:** It is a matter of the whole tax regime. There is the headline rate of tax, but with tax credits the actual rate could be much lower. It is clear that if we wish to achieve revenue-generating businesses, the tax issue and the fiscal issues are very important. We have seen that with all of the FDI. From talking to our international clients, I know that financial control rests with the vice presidents of finance, who are heavily involved in the fiscal and tax regimes. That is a critical factor in decision-making. It is not the only factor; there are others, such as the skills base, university support, infrastructure and other aspects that we mentioned. However, there is no doubt that that fiscal regime is more important than even financial incentives.

*11.00 am*

415. **Dr Farren:** Thank you for the opportunity — at long last — to meet you and

the others who will appear before the subgroup over the next few weeks.

416. Let us assume that we have an attractive and competitive package to attract additional investment from whatever source, be it foreign or indigenous. A target of 140,000 new jobs over 10 years has been set. To clarify, I assume that those jobs will not all be in the private sector?

417. **Mr Kingon:** No, that is the total employment target.

418. **Dr Farren:** Where can growth in the private sector be expected? In other words, what sectors will you target? Do you aim to make the best possible pitch to the widest possible range of investors, be they, as I said, indigenous or foreign, and hope that the wind will blow in a sufficient number of jobs and the investment to produce those jobs? Or, do you have a reasonably clear idea of the sectors to which investment is most likely to be attracted? With that knowledge, we can speak confidently to skills and education providers to ensure that there is a good supply of the skills and qualifications necessary to fulfil those jobs.

419. As you know, we are in a globally competitive market, and our package may not bring all that we need. I am anxious to know where you see the balance between indigenous and foreign investment and what sectors are most likely to see the best returns from such investment.

420. **Mr Kingon:** We said earlier that, as a developed country, Northern Ireland must move up the value chain. Currently, we need to concentrate on the back-office and financial services sectors. Software is still a key growth area. That is also linked to innovation, particularly to universities, and including life sciences and medical devices. Those sectors are important. There is also a reasonable cluster of investment in advanced electronics.

421. Those are the sectors in which we can compete, because we are not playing at the low-cost end of the market; however, technology and knowledge transfers also play a role. There is already a base in some of those sectors, albeit

not to the full critical mass that one would like. That is where we see the need, although, as Michael said, that is linked to the skills strategy, as we need to put more resources into some of those key sectors.

422. There are obviously spin-offs from that, because sectors such as tourism and retail will also provide jobs. The tourist sector needs investment in training and development, in addition to the infrastructure spend that we mentioned. Less than 2% of Northern Ireland's gross domestic product (GDP) comes from tourism vis-à-vis Scotland and the Republic of Ireland, where the figures are 7% and 9% respectively. Northern Ireland has much the same climate and physical infrastructure as those countries, so we should be able to raise that contribution to the GDP. Investment in infrastructure in the tourist sector is necessary, but investment in people is also required.

423. **Dr Dobbin:** It is important that we do not get too restrictive. Government economic development agencies did not always get it right in the past whenever they selected the stars for the future, and the market is quite dynamic. When we consider innovation, there is an opinion that even some of our traditional sectors can transform themselves. For example, our very large agrifood industry is the biggest indigenous manufacturing and exporting sector. We need to examine how we can rescue— or maintain — rural and processing activity in that sector.

424. When we look at that sector, there are specific opportunities to get into functional foods and fresh foods. Products that have a short shelf life cannot be supplied from China or further afield, only from nearby. Functional foods are foods that have health benefits or are perceived to be more natural.

425. There are also opportunities in engineering and in some traditional industries, including textiles, to get into high-fashion design. Product turnover is fast in those areas, and there is a constant flow of new products and ideas. It is difficult for long supply chains in the Far East to match that.

426. Stephen Kingon is right that Invest NI's vision has identified five key technology areas, including food and life science. We need to encourage all business to be more outward-looking, more ambitious and more innovative. There is no reason to write off a sector, particularly agrifood, in which we see growth even though all the pundits said that it should have died and given up several years back. We need to be careful that we do not write off an industry only to discover that there was a way of transforming it.

427. **Dr Farren:** I stressed the need for indigenous as well as foreign investment. In the light of what Michael Maguire was saying, where are the skill-provision and higher-level-qualification gaps that need to be filled? Without the already existing significant levels of migration and assuming that the investment packages are achieving their goals by attracting investors, can we reasonably expect to have a workforce that will meet the challenges? Investors do not find that the skilled labour force — at whatever level — is here to meet their needs.

428. **Dr Maguire:** That is the right question. When we talk about the need for a responsive education and training system, the question arises: "Responsive to what?" We have in some cases a very good, but very elaborate, training infrastructure that is demand-driven: it is driven by the needs of the students and the needs of local employers who are developing what they do in a very small area.

429. If you are asking where we need to be, this is work in progress. One of the things that we — David, others and myself — have been pushing within the EDF is thinking about the skills that will be required in industry in Northern Ireland. We need to think about where the gaps are and what we need to develop a more responsive structure to.

430. The answer is probably on two levels, but I am not sure where the balance is exactly. On one level, you need to develop the generic problem-solving, team-based, well-educated, literate and numerate workforce that is a rising tide for everyone, and you have to look to the primary and secondary schools, vocational

further education colleges and universities to deliver on that.

431. At the same time, we need to take a top-down view and consider whether Northern Ireland needs more engineers, for example. We need to be able to push those ideas through a responsive education system that considers its job to be one of helping to develop the economy of Northern Ireland, rather than considering its job in a narrow way — and I am overcharacterising here — as being purely educationalist based. I am unsure of the answer, but I am convinced that we need to ask questions in those two areas to try to get an answer.

432. **Mr Neeson:** The challenges that lie ahead are huge and growing by the day, particularly with the development of the global economy. I am aware of one local entrepreneur who has invested in China. A great deal of Northern Ireland money is being invested outside Northern Ireland. Why is that happening?

433. Dr Maguire did not mention the impact of high-energy prices. Like most members, I welcome the development of the all-island energy market. If the Secretary of State takes us down the line of green energy, that will mean higher energy prices. How do we compete in the global market with issues such as high energy prices? Dr Maguire has dealt with my other question regarding responsive education systems. The development of skills is critical if we are to compete in the growing global market.

434. **Dr Dobbin:** In response to Mr Neeson's first question regarding businesses relocating to China, Estonia and Poland, the cost base is lower and they can get access to cheaper raw materials. We operate in a marketplace. When we go shopping at the weekend, we like to get value for money and good deals. If products are price sensitive or cost sensitive, businesses will move to countries with the lowest production costs. In China, where I worked for four years, there is a vast labour market, and labour costs are about one tenth of what they are here. One does not have to go to China; one could go to eastern Europe for low labour costs.

435. If the economies of the past were built around labour and ports, etc, the commentators say that future economies will be built around skills, innovation and universities. We have two fantastic universities here, but, unfortunately, many students who leave Northern Ireland to study in GB do not come back. It is not that there are insufficient university places; there are not enough good graduate employment opportunities. We must try to encourage the formation of businesses that tap into that talent, as it is earning money for itself, and for the companies that it is working for, elsewhere. Everyone should consider how we could use our universities better to drive the economy. Both universities are aware of that, but there is no formal strategy in place for exploiting the knowledge that we have in our universities, and the talent coming out of them, to better advantage. I have spoken to both vice-chancellors, and they agree that there is a gap. The Department for Employment and Learning should consider that issue. We are putting a great deal of public money into universities; let us ensure that we get a return.

436. Seán Farren touched on the issue of choosing the products and areas that we should go into. The reality will be a mixture of where we are already and whether we can sustain those industries and encourage some new ones. Dr Maguire touched on the skills issue. Nanotechnology and bioscience are seen as areas of emerging technology, and our universities have expertise in those areas.

437. Stephen Kingon would say that the British Government target the financial services industry. That is because there is a history of strength in the UK, particularly in London. However, Dublin also has a history of strength, and businesses are running out of affordable office space and people in the South. If we had a centre for financial services, perhaps in an enterprise zone, we could create a seedbed that could await the overflow from the South.

438. The Southern economy is definitely overheating in areas where it cannot get the skills, and yet we are seeing a brain drain. We need to find some clever way to tap into that

overspill, and the overspill from other parts of Europe, in back offices and financial services. We need fiscal flexibility: not just a lower tax regime, but one that targets the people we want — those that can give something back into the economy. It should not apply to everybody.

*11.15 am*

439. **Mr Billington:** In relation to the question of where local businesses outsource, it is either evolve or die. If our cost base in Northern Ireland continues to rise so that local businesses cannot compete, they will outsource the lower-value-added work and retain the design and marketing work. Those businesses evolve to outsource the low-value-added work and concentrate on the high-value-added end of the business. That is evolution. The more our cost base rises, the more that evolution will move across our indigenous businesses. That is the challenge. There is always equilibrium. As the cost base rises, a new equilibrium reaches a new point where more is outsourced.

440. You are quite right in that the high cost of energy is putting businesses under stress. Combined with that, there is a stranded cost that has still not been addressed, which means that whatever happens in the UK, we will be worse off by that extra slice of cost, and that must be addressed.

441. However, moving forward, the key issue is that businesses evolve, and that is not necessarily a bad thing: they either die or evolve, but that rate of evolution or change will be determined by the cost base in Northern Ireland. Managing the cost base here could be under the control of the devolved Assembly.

442. **Dr Dobbin:** A major problem is the cost of transporting our products. The UK, for its own reasons and because of climate change, has imposed a tax on fuel higher than that in almost any country in the world, while Southern Ireland has a more modest tax rate. That has led to two things. First, the transport industry is moving its base to the South where it can source cheaper fuel, and, secondly, fuel smuggling as a result of the tax difference has led to more criminality. We reckon that last year the British Government lost £300 million in tax revenue

because of fuel smuggling. That is one area where a reduction in excise duty would increase the tax take for Government, reduce criminality and make businesses more competitive.

443. The duty on fuel should be looked at. There are examples where Britain has varied the rate of duty here. A similar problem arose on the aggregates tax, and the Exchequer changed the tax because of the distortion on an island economy, and that should be looked at. It would help small and large businesses, it would stop criminality and it would probably increase the tax take to the Exchequer. Energy could be made more affordable, and at the same time it would benefit the Exchequer, and we would see the benefits for law and order and criminality.

444. **Mr Bryan:** The central message that should come through is the speed of response. Fundamentally, the greatest gift that this subgroup can give is a stable, local Government that will allow businesses the freedom to sell and invest in the future. All the messages coming through, whether that be investments overseas or whatever, reflect that times are moving on at a pace that neither you nor I can control. We cannot try to turn back the tide. We must act now, even though it may be long overdue. The central message from the business community is that we must knuckle down and get on with it.

445. **Mr Poots:** I want to deal with the practical issue of how the Government can implement changes, particularly in the light of the current planning policies in Northern Ireland. Land values for housing are now around £1 million per acre, and for business development around £400,000 per acre. Most of that money goes into the pockets of the individual selling the land.

446. What can the Government do, first to make land more affordable, and secondly to draw more money back into the central economy in terms of development gain, thus ensuring that developers provide more roads, sewerage and general infrastructure so that the public sector does not have to pick up that tab and has more money to spend on other areas?



447. With regard to education and training, Northern Ireland has many people at the higher end of the education bracket and many at the lower end. That has created some problems, because those at the higher end tended to go to the top universities in the UK — which were outside Northern Ireland — and those in the lower end found difficulty getting jobs. There are huge challenges for those in employment who have low numeracy and literacy skills. How do you see the universities rising to that challenge?

448. There is an issue about the number of available university places and the courses that are being taken at universities in Northern Ireland. Many young people are coming out of university, going to work in Tesco for six months or a year and then taking up a job that is completely unrelated to their degree. What practical university degrees do you see coming forward that can be used in the workforce? Should we be looking at the possibility of creating more polytechnics again? There used to be a polytechnic in Jordanstown, but that transferred to university status. Should some of our further education colleges go down the route of becoming polytechnics, and should we create more training opportunities for the jobs that are coming about?

449. How do you see the R&D tax breaks tying together with the employment and training opportunities? Northern Ireland universities have many degree courses available in medicine and biosciences. I see that as one of the greatest opportunities for quality employment growth. It is also an area where R&D tax breaks could attract significant foreign direct investment. How would you tie the training of people for the biosciences and nanotechnology with the introduction of the R&D tax breaks?

450. **Dr Dobbin:** I will answer the question relating to planning and land, and my colleagues will answer some of the others.

451. At present, the planning response is a major barrier to development of almost every kind, whether it is private housing — of which there is a shortage in Northern Ireland due to difficulties in obtaining planning permission —

retail, commercial development, or business development. That was reviewed recently by the EDF, and there are several reasons why the Planning Service is not keeping up. The biggest one identified is that its sister agency, the Environment and Heritage Service, which is part of the DOE, is not responding on statutory consultation fast enough, and it is woefully behind its targets. That is a major barrier to the granting of a fast and speedy planning decision. Something must be done, and the Government recognise that. However, no one seems to be able to get the Environment and Heritage Service to respond within the deadlines set in planning. That is the biggest obstacle to a speedy planning decision that has been identified.

452. Any developer will tell you that the price of land is artificially high. Land with planning permission is at a premium here because it has got through the net. If the planning procedure was speeded up and the Planning Service's regional plans were completed we might see, if not a fall in land prices, then a steadying of them. We need to build more houses, and that alone will create economic activity. Property developers are investing in Great Britain and elsewhere because they can get planning decisions faster and they can turn their money over faster. So there is definitely an issue to ponder there.

453. I have spoken to both vice-chancellors about the skills issue and the cap on university places. There is a cap on university places here that does not exist in other regions. Scotland provides more graduate places than it generates in terms of student demand, and Northern Ireland has fewer graduate places than it needs. Both Northern Ireland universities are cautious about expanding at present because of the slump coming through the education system: the baby boomers are slowing down and there is a rapid fall in enrolments.

454. There is a fear that if further and higher education provision were expanded, falling enrolment numbers in primary and secondary schools could, in five or ten years' time, hit the further and higher education sector and affect its student numbers. Therefore, there is

nervousness about a potential stop-start situation.

455. Before I hand over to Dr Maguire and the others, I have one final point. The comments about the technical colleges were well made. There is a strong view in business that an option must be created for those young people who are not particularly academically oriented but would make good technicians or show good vocational skills. The further education sector is being restructured, and the new technical colleges or the polytechnics even offer degree subjects. We must ensure that we get it right in those areas.

456. Some within the business community believe that there should be a return to secondary technical colleges, which worked very well in the 1960s and 1970s. Attending such colleges enabled those who did not get through the then selection system to follow a worthy career path. There is a demand for those skilled workers; there is a shortage of technicians, plumbers and builders in Northern Ireland. The Strategic Investment Board, of which I am a member, cannot get contractors in sufficient quantities to meet some of the infrastructural demands.

457. **Dr Maguire:** Dr Dobbin has covered my points. There must be a greater emphasis on the development of vocational technical skills. I am not of the view that we should simply create another dimension to the training and education infrastructure. We have a good network of further education colleges.

458. We must approach this issue on two levels. First, we must move away from the mindset that believes that the purpose of education is to create lawyers, doctors or accountants. Secondly, we must celebrate the excellence that exists in our vocational and technical skills. A BTEC is the equivalent of three A levels, and gaining that qualification allows a student to take a step further in the education process if he or she wishes to do so. Too often we take the view that there is only one education system, which celebrates academic education. That system is good, and we want to keep it, but, as Dr Dobbin said, we must consider also the importance of vocational

technical skills and moving the further and higher education colleges forward.

459. The Department of Employment and Learning spent £163 million on the further education system. Work needs to be done to provide a business focus to the work of further education colleges, and the “Further Education Means Business” strategy should be encouraged and reinforced. However, we must keep the pressure on. We must ensure that the further education sector provides what young people and businesses need to match candidates to jobs.

460. To answer the question directly, we should not create another layer in the education hierarchy to meet those needs. We should try to get the maximum results from the structures that are already in place.

461. **The Chairman (Mr Molloy):** I remind members that we are running out of time.

462. **Ms Ritchie:** I noted Mr Billington’s earlier comment that there is a direct correlation between a good infrastructure and the development of a sound economy, and that we need a good infrastructure for the prompt delivery of skills, goods and services. In particular, he mentioned the lack of development of air routes and the lack of availability of certain routes for the prompt delivery of those good and services.

463. First, has the Northern Ireland Business Alliance (NIBA) undertaken any analysis of that issue? What discussions has it had with air carriers and airport owners, and has it considered the all-Ireland regime and the possibility of using airports in the South, such as Dublin and Shannon?

464. Secondly, we are overly dependent on our roads infrastructure. It is our only sound land infrastructure, as the railways are underdeveloped, although, for too long, the improvement of the roads infrastructure has been concentrated in certain areas. Has NIBA assessed the need to improve the roads infrastructure, not solely at the main hubs, but across a wider area, to ensure that the requirements of the Regional Development Strategy are met? Does NIBA consider that the five-year review of the strategy, which is



currently subject to consultation, would be a good mechanism for that assessment?

465. Thirdly, for the prompt delivery of goods and services, we have the east-west route. How could railway infrastructure be used to bring our goods and services to ports on that route? What discussions has NIBA held with Translink and Iarnród Éireann to improve the delivery and transportation of freight on the Belfast-Dublin route?

466. **Mr Billington:** NIBA does not do air route analysis. It relies on studies from other bodies. However, having worked for a multinational, I can tell members anecdotally that the number of man-hours spent travelling to and from Europe and America means that businesses carry more people to cover the same amount of work. Any travel time that you save means that you can be more competitive and give your customers a more prompt response. Two or three years ago, Invest Northern Ireland engaged with various air companies. Indeed, Stephen will outline the work that has been done and work that is ongoing on growing air routes.

*11.30 am*

467. **Mr Kingon:** One of the big problems was getting direct flights out of Belfast. Air Route Development (NI) Ltd was set up to negotiate with the airlines, with the result that a few more direct routes have been opened up. There are some issues to be resolved. There is a big uptake of people leaving Northern Ireland, but the number of returning passengers is a problem. Those routes will continue to be marginal until we build a track record.

468. More needs to be done to develop other direct routes. There is a need for further funding and investment through pump-priming. There have been one or two failures because people went too quickly into a marketing campaign to get some of the stuff off the ground. Generally, accessibility has been an issue. The very fact that we have some direct routes now does help.

469. **Dr Dobbin:** The point about Dublin airport was well made. We need to ensure that we complement it. The market will find its own

balance, but for certain routes, there is not enough demand in Northern Ireland to justify a flight. In those cases, the rapidly improving road system allows access to Dublin airport should you need it.

470. There has been a significant study made of railway infrastructure. NIBA was party to it, and I was personally involved through the Strategic Investment Board. With rail, the problem is one of viability, the number of people here and population density. I could almost declare myself to be an anorak. I am a railway fan. When I joined the Strategic Investment Board, I was keen to see, for example, improved railway connections to Derry. The line between Derry and Coleraine is dreadful and needs to be upgraded. However, when the cost of that is considered, it would almost be cheaper to build a main dual carriageway with a bus or tram system. It would cost less to operate and be more flexible at either end.

471. Either way, however, the point about Dublin airport was well made. We need better east-west connectivity, as well as improved routes between Dublin and Belfast. We need to consider the routes from Belfast to Derry, Belfast to Armagh and out to the west. The average speed on our strategic road network is well below where it should be. It is just in the early forties. We need to get it up to 50 or 60 miles per hour, and we need to make bus routes faster as well.

472. Mr Billington referred to commuting. It works both ways. If we could create, for example, a carriageway or motorway beyond Dungannon, it is my gut feeling that it would do two things: improve labour mobility and create business in those areas. If it were easier for businesses to connect, it would be easier for customers to reach them.

473. My gut feeling is that investment in transport would help rural development more than anything else that we could do — more even than allocating grants — because people would not feel as isolated. Businesses would be easier to get to for customers, investors and commuters.

474. I am not so sure that every region could have its own economic heartland. That is perhaps a planning issue. There is no doubt, however, that we need a strategic road structure. Rail has its place, particularly on the Belfast-Dublin route. I would like to see much-improved Belfast-Derry or Belfast-Coleraine-Derry systems.

475. However, the feedback and figures that we are getting suggest that it would be cheaper to build roads and have a good bus system than it would be to put huge investment into rail. To build a new high-speed track between Belfast and Derry would cost around £0.5 billion, but only the Belfast to Dublin route would have the traffic to justify that sort of investment.

476. **Mr McNarry:** As I listen, things come back to mind. Society has not recognised the debt it owes to those in business — in commercial retailing, financial services or whatever — who stuck with us through the duration of our troubles. Therefore your responses here carry more weight than politicians sometimes give them.

477. I have three questions. First, what advice would you give to a cross-section of 15-year-olds with regard to their employment aspirations, given the need to create the 140,000 jobs that you talked about?

478. Secondly, I know that Stephen has a romantic view of these things. I would love to help him create his commercial Utopia — a permanent happy hour for all those incentives, wherever he wants to site it. I listened to what was said about the enterprise zones. It would be interesting to find out how many businesses, having taken advantage of those zones, vacated them once the happy hour was over. We have to factor that into things.

479. Thirdly, can we escape from a “buy one, get one free” promotion mentality with regard to incentives? How confident are you of delivering stand-alone products and services — “the best in the world”, as the Secretary of State likes to call them? Somewhere along the line we are going to have to make a decision about parity, but which comes first? Our ability to deliver the best, and does it stand alone? Or

must we attract by discounting and bringing people here?

480. Apart from the blip, we have had 30 years of direct rule. During that time, what representations did your sector make to the Government? I have followed your activities, but I have listened intently to you today and to references to the complications facing the EDF. What did you say to the Government? Were there any areas in which you felt that your representations contributed to a success? I share the views that you have expressed today. I wish that we could join you in establishing a coup tomorrow so that we could get rid of these bloody useless direct rulers. I think that that is what you are saying, though perhaps not as nicely as I put it.

481. What did you feel over 30 years? You said to the Government that it made a difference. In other words, why would you be listened to now by a Committee that is preparing to displace direct rule and, as elected people, to enter into Government and take all the flak that you are somewhat sheltered from? You do have a political voice, however. Was the growth of the public sector — which you are right to say got out of hand — and the dependence that we now have on it reflective of genuine difficulties, a failure to get through to the Government what they were doing, or was it that people chose to invest elsewhere? Stephen talked about stability, and he is right. Was it just that the climate was not good?

482. I hope that we enter an era of better prospects, a better climate, and the formation of a devolved Government. If we do not form this Government you have the right to kick every politician’s backside up and down the land because we will have failed you. We want to take this forward positively, but some of what you have said frightens me.

483. **The Chairman (Mr Molloy):** David, I must ask for a reply, as we are running out of time.

484. **Dr Dobbin:** There are some deep issues there, some of which resonate with me. I am a product of that happy hour in the 60s and 70s when Government incentives, mainly in the

form of capital grant and accelerated allowances, brought in a huge wave of UK, European and American manufacturing companies. We had a golden time. Companies around Carrick, Larne and Antrim benefited from an influx of massive multinationals. There were textile firms; I was with Rothman's tobacco business; and all those businesses brought employment, skills and good years to their supply base. There is a risk that they are promiscuous, that when happy hour ends they move to the next bar and feed there. So multinationals move to China or Estonia to get a better deal.

485. We need to recognise that foreign investment can be mobile and will not stay if better conditions are offered elsewhere. However, it leaves a legacy, and you must hope that it is a good one. Very few multinationals in Northern Ireland are anchored here and do research here. In the South, however, the golden year or happy hour tax has brought in a lot of foreign investors, such that there is a critical mass in the economy that is leading to indigenous start-ups.

486. I am chief executive of an indigenous company. Realistically, it does not make sense for us to be in Northern Ireland. We are going to be here because our shareholders and head offices are here; I live here and am not going to move. If we can get indigenous companies and boardrooms that have their marketing, their R&D, their financial centres in Northern Ireland, they will be here for the duration. As Declan pointed out, they may outsource to China for some of their subcontracting etc. They must do that to stay alive and to remain committed. We could do with a happy hour; realistically, we could do with bringing in some of these heavy hitters, because they will help to fast-track skills, management training, supplier development etc. We need them, but we must be mindful of the fact that they are promiscuous and will move on to feast somewhere else if they find a better deal.

487. On your point about NIO and the direct rule period, Michael and I have just finished a tour of duty as chairs of respective business organisations. When the bun-fight is over, we

ask ourselves, what have we achieved? We go to endless meetings, meetings like this. What is it all about? Ninety per cent of the time we are stopping the introduction of stupid policies as opposed to working on productive things. Ninety per cent of the time we are pointing out what does not make sense, fine-tuning, changing policies and talking people out of the worst excesses of ideology.

488. If you get back into an Executive, there will be a lot of levers and buttons in front of you. You will push them and find nothing happens. The creation of a strong economy will be a long-term initiative. You will do a lot of things without knowing immediately whether they will work. There is a lot of luck to it; if the world economy booms, and you get a few inward investors who strike the right note, you could be really lucky. Equally, you could come in at a time when the world economy downturns, and you will reflect that downturn no matter what you do.

489. We have one salvation. Northern Ireland has only 1.75 million people. We do not have to bring in too many big inward investments to make a difference, nor have we too many mouths to feed. A few big investments would make a huge difference.

490. As for the Civil Service, there is no doubt that the British Government pursue the policy of creating stability in Northern Ireland by anchoring society with a large public sector. Without that, there probably would have been some very lean years at the height of the troubles. However, that anchor is now a millstone around our necks. We enjoyed that stability, but now in a new era we are faced with "the Department for Sales Prevention".

491. The Civil Service is so good at maintaining stability that it cannot be agile; it cannot transform. We must almost break it up with a hammer, so that those who want to get on and do things are not prevented. Generally when you give our civil servants a problem they come up with nine reasons why you should not do it and perhaps one supportive idea. That is how they have been trained; that is how the system works.

492. The public sector was very valuable in the past. Now it must change, so that it becomes our servant rather than our master — as it is at present. When you come into power, you must change it or it will be your master. It will stop your best ideas coming forward, because it is designed to create stability and even out change.

*11.45 am*

493. **Mr Billington:** In terms of delivering the best expertise in-house versus effectively bringing it in from abroad, no matter what the ability of the people of Northern Ireland, for which I have high regard, there is no substitute for experience. Ability must be married with experience, and the best and quickest way of getting that experience is via exposure to multinationals.

494. As David said, he and I have been spun out of multinationals; we gained know-how in three to five years that it would take 10 years to gain alone. That is available to local businesses.

495. That is one of the spin-offs. Multinationals may come and go, but we get the knowledge and the experience that is critical to making local businesses a success.

496. **Dr Maguire:** I would like to say to a cross-section of 15-year olds that, although we are locked in a cycle of generational unemployment, that does not mean that it will happen to them, because we have an education system that can tap into their individual skills and strengths. Those skills and strengths do not have to be academic; they can be vocational and technical. I would like to be able to say to 15-year olds that our education system can broaden the range of opportunities available to them to develop those skills that they need. I would also like to say to those who want to broaden their life experience by going to university outside of Northern Ireland to take that opportunity if we can bring them back to work in and contribute to the society that educated them.

497. However, I am not sure that I can say that to a cross-section of 15-year-olds at present, because our education system lacks the breadth to allow for those opportunities. We must acknowledge that there is not just one route to

employment, but a number of routes. We must use what we have in place to help provide some of those opportunities.

498. **Mr McLaughlin:** I am conscious that we have run seriously over time, so I will ask one question and make a point on a specific issue.

499. How would you describe the profile of the economy in 10 years' time? That relates to David's first question.

500. We have discussed the transition process, and that discussion contained some fascinating detail. From listening to the questions and the responses, I believe that there is probably a significant amount of agreement on what has to be done to create this step-change scenario. We disagree in some instances, particularly on the public sector, but we are solidly behind the concept of growing the private sector.

501. A passing reference to Europe was made. In many ways, Europe provides a get-out clause for central Government in respect of state support, single-market requirements, or whatever. Do you see the need to develop a specific strategy to create the space in which Europe can support this society in transition in the same way as Europe supports the economies of other member states? Do we need a specific package from Europe that complements what we hope to achieve from the Treasury?

502. **Dr Dobbin:** If you were to go to almost any region in Europe, or, indeed, the world, Mitchel, there would probably be consensus on what regions can do to grow their economies. The difference between the successful economies and the ones that fail almost comes down to how well they implement their ideas. They generally share the same views on education, innovation and infrastructure.

503. Those views will appear in almost every economic strategy around Europe, so how can we get things to happen here? We are small, so we should be easily connected and able to get consensus quickly, yet so often we find that very hard to achieve. There is a fragmentation, not just politically, but in numbers of bodies and Departments. Rather than just get on with it, there is incessant negotiation about getting



things done. We have an issue with looking outward.

504. My ambition for this region in 10 years' time would be for it to look back on something similar to what Southern Ireland has seen in the past 10 to 15 years. We are on the same island, and our education system is just as good. Southern Ireland is stronger on the technical side, so we may have some work to do there, but we have a better infrastructure than it has, so why can we not mirror what it has done?

505. Its Government can form policies that suit the region; that, however, is missing in Northern Ireland because direct rule tends to impose UK solutions that do not fit our circumstances. It needs you guys and us to sit round a table like this to work out what we do tomorrow. However, we should not get too focused on policies; let us focus on action.

506. In 10 years' time we need to be where Southern Ireland is now. That is not a political comment. The South has experienced an economic miracle: it used to be a banana republic — with a huge debt — that almost had to be rescued by the International Monetary Fund. Now all its debt has been paid off, it has a surplus, high employment and much better wealth for all its citizens, and economic growth extends to all sectors in its part of the island. We need the same here.

507. **Dr Maguire:** I will pick up on the need to manage transition space. We have talked before about the relative merits of the public versus the private sector. Those are the issues that we need to talk about. There is a risk of taking a twin-track approach: growing the private sector while looking at the public sector in isolation. The public sector here spends more than £8 billion, and that will have a huge impact on how the private sector develops. Any management of transition from one to the other will involve difficult decisions, and you, as elected representatives, will need a wide variety of views and opinions to allow you to make difficult decisions. Part of managing transition space is about how we work together with stakeholders to allow such decisions to be taken without being kicked for doing so.

508. We can figure out what we would like to see in 10 years' time: difficult decisions will have been taken, and the right kind of support will have been galvanised around the taking of them. Taking decisions that will benefit the economy will mean people having to move from the positions that they have adopted.

509. **Mr Kingon:** We would have to negotiate with Europe on a wider base on issues such as state aids; and the EU Competitiveness Council would have to tick the box on any suggestions that you make on the fiscal side. In negotiating a package with the Treasury, failure to include the European dimension could be a block.

510. **The Chairman (Mr Molloy):** Time has beaten us, although important questions were asked and answered. Thank you very much, Gentlemen, for taking time out of your busy schedules to speak to us. We hope that our joint efforts will be of benefit.

511. **Dr Dobbin:** Thank you, Mr Chairman. May I make a final point. In the next week to 10 days we will let you have a written submission containing what we said today, including our answers, so that the subgroup will have an expanded version of our arguments.

512. **The Chairman (Mr Molloy):** It might be interesting to know what exactly the package would contain and how it would be used. That might be an issue for the subgroup's terms of reference.

*Informal break at 11.53 am.*

*On resuming —*

*11.55 am*

513. **The Chairman (Mr Molloy):**

Gentlemen, you are very welcome. I am sorry that the previous session overran, but I hope that some of the questions and answers were of benefit to you.

514. **Mr John Friel (Federation of Small Businesses):** Thank you, Mr Chairman and members of the subgroup, for allowing us to make a presentation today. My name is John Friel and I am Chairman of the Federation of Small Businesses (FSB) in Northern Ireland. My colleagues are parliamentary officer Glyn Roberts and deputy policy officer George Dorrian. George is with us in a supporting role.

515. I would like to apologise on behalf of Wilfred Mitchell who cannot be here due to prior engagements. I will be representing him today.

516. I will make a brief introduction to the presentation and will then hand over to Glyn, who will present the important details of some of our policy priorities. I believe the subgroup has been provided with a written copy of the presentation.

517. Northern Ireland is a small-business economy. Ninety-eight per cent of businesses are small and more than 89% employ fewer than 10 staff. The Federation of Small Businesses welcomes the establishment of this subgroup to develop all-party consensus on what needs to be done to address the problems and challenges that lie ahead and, hopefully, to form the basis for an the economic element of the Programme for Government for a future devolved Administration.

518. Much of our presentation gives practical policy suggestions. There is no doubt that having our own devolved Assembly with local and accountable Ministers is vital. Local Ministers can show real leadership and can reach a real understanding of what our economy needs to be sustainable and provide the future prosperity that Northern Ireland needs.

519. Developing our small-business sector is essential if Assembly Members are serious about growing our private sector. Developing a

few indigenous small businesses that can use research and development (R&D) and export to new markets across the globe is the future of our economy.

520. We need a future Assembly Administration to hit the ground running with a radical economic programme, with ownership not just by the political parties in the Assembly, but by wider social partners in Northern Ireland.

521. My colleague, Glyn Roberts, will expand on our policy agenda and the subgroup's three terms of reference.

522. **Mr Glyn Roberts (Federation of Small Businesses):** Thank you, Mr Chairman, for the opportunity to make a presentation today. The subgroup has received a detailed written presentation and I hope that there will be a number of questions, which we will try our best to answer.

523. I would like to touch on three or four main areas that we feel should be high on the subgroup's agenda, given its terms of reference.

524. As you have heard from previous contributors, there is a lack of investment in R&D, particularly in the small-business sector. At one point, we had one of the lowest R&D spends in the European Union.

525. Many small businesses do not have the resources, financial or otherwise, to invest in R&D. The Federation of Small Businesses has always maintained that we must use the tax system to encourage more small businesses to use R&D. Obviously, we have the credit system but — as was pointed out during the previous session — take-up by small businesses is very small and we must simplify the system whereby small businesses get tax breaks to invest in R&D.

526. This is not brain surgery; it is very simple. Invest Northern Ireland and the Department of Enterprise, Trade and Investment could use as champions local, indigenous small businesses, which have successfully used R&D to expand their businesses and which have exported to developing markets across the globe. If we had such champions, small businesses could identify with them and that key connection would be made with the typical, grassroots small-business



owners who perhaps do not think that R&D is a matter for them.

527. That would help change the, perhaps, very parochial nature of some of our business community.

*12.00 noon*

528. To underline some of the points that were made earlier, we can grow as a region only if our infrastructure goes through a radical programme of modernisation. There is no doubt that underinvestment has penalised us in the past.

529. I wish to home in on the work of the Strategic Investment Board, which I believe the subgroup is examining. The board has a huge role. Charged with implementing the Northern Ireland investment strategy, the board has real potential to create opportunities for existing businesses. Our concern is that, for a variety of reasons, existing businesses in Northern Ireland are not able to take advantage of the contracts that the SIB is creating. We must reconsider procurement policies and ensure that local businesses are fit for purpose and can take advantage of those contracts.

530. We believe that the board of the SIB needs to be looked at again. There is nobody from a small-business background on the board. Our colleagues in the trades unions would also feel that they do not have a role on that board. The SIB must sit back and realise that ours is a small-business economy and that it, along with Government Departments, has a role to ensure that business is able to step up to the mark.

531. We broadly support the Industrial Task Force's position on corporation tax. I understand that the subgroup will hear from that body fairly soon about the harmonisation of corporation tax with the Republic of Ireland. However, in the field of practical politics, there is obviously strong concern from the Treasury that that would have implications for the fiscal union and would set a precedent for other parts of the UK. However, given that we are the only part of the UK that has a land border with another member state of the European Union and, given the legacy of the troubles, some form of special status is absolutely essential.

532. If we look at other member states of the European Union, such as Latvia, which has an extremely low corporation tax rate — even lower now than the Republic — we see that we have a huge amount of catching up to do.

533. On rating, as many members may know, we favour a small-business rates relief scheme, such as is already in operation in Scotland and England. Indeed, the Department of Finance and Personnel has indicated that it is studying the operation of those schemes. We believe that that is the right way to proceed, and that we could come up with a model that would address the concerns that members have heard from the manufacturing sector and many other business that struggle with the problem of high rates.

534. We are currently consulting our members, principally, at this stage, those in manufacturing. We will then consult our broader membership on a model for Northern Ireland that would work and be appropriate, because it is important that we get the rates issue right. That issue has been kicking around for an immense number of years, and there is real concern about that. No small business should have to struggle with a rates bill, and we must ensure that we get that issue right and that small businesses have the capital to grow and expand.

535. We, along with colleagues in the Business Alliance, have been involved in various meetings on fiscal incentives with the Prime Minister, the Chancellor and, indeed, many people around this table. We have proposed that there must be an effective scoping study by the UK Government. Obviously, it is essential to hear the views of this subgroup on the options for additional fiscal powers for the Northern Ireland Assembly, looking at best practice in other parts of the UK, and other countries that have similar devolved structures.

536. Perhaps the big question that the subgroup is trying to tease out is what exactly an economic package and peace dividend should look like. It is important that we develop as much ownership of what that package should be — a consensus across the board, not just in the business community, but across other sectors. Obviously, approaching the Treasury

with a single voice on what a package should be is absolutely essential.

537. We have over 6,000 members throughout every section of the community in Northern Ireland, and we have begun to ask grass-roots business owners what they would like to see in an economic package. It is important to recognise that so much of what politicians do and how the systems of government work goes on behind closed doors. We need to get the grass-roots views.

538. Clearly, the infrastructure deficit, the high cost of doing business and how we effectively use our taxation and rating systems to kick-start the private sector will all be essential elements in the economic package. The more we develop a consensus on that approach, the better it will be when negotiating with the Treasury.

539. FSB is clear on the need to look at other regions around the world, not just the Republic of Ireland, to see best practice and where the gaps in the market lie to ensure that local business successfully exploits those opportunities. Our paper suggests establishing a joint Government and business task force, which would obviously include Invest Northern Ireland and various other agencies. Putting business people, along with Government, in the driving seat is essential.

540. That is a brief overview of some of the points in our presentation. Our report, 'Lifting the Barriers to Growth', is quoted throughout our written presentation. It is a survey conducted every two years of our members not just in Northern Ireland, but in the United Kingdom. We also have the complete list of Northern Ireland figures, which have not yet been released, but which we hope can aid the subgroup. I realise that the subgroup has quite a tight timetable in which to produce its report. If we can do anything to be of any further help, we will be only too happy to do so.

541. **Ms Ritchie:** I wish to expand on infrastructure, which I discussed with the Northern Ireland Business Alliance earlier. Mr Roberts said that the infrastructure deficit, the high cost of doing business, and how we effectively use our taxation and rating systems

will be essential elements of any economic regeneration package. Everybody says that there is a deficit in our infrastructure; on what basis does your organisation make that judgement?

542. We are aware of the roads and water infrastructures. How do you see that contributing to the economy overall? What are the essential elements of an infrastructure package that would contribute to an improvement in the economy?

543. **Mr Roberts:** First, we must be clear on what an infrastructure deficit is. We have heard many things that it could be, such as a motorway from Belfast to Derry or a train line to Fermanagh. The members here represent different constituencies, and will all have pet projects. We need to effectively scope what an infrastructure deficit is and reach a clear consensus on it. In relation to the price tag, we obviously need to be extremely clear about what we need to do.

544. How an infrastructure deficit is connected to economic development can be illustrated by Invest Northern Ireland's recent report on how much spend it gives to business start-ups. In places such as Strabane, and throughout many border areas, there is very low investment in business start-ups by Invest Northern Ireland. Much of that is market-led, but because of the infrastructure, with poor roads in some areas, access can be difficult. That is why investment figures for south and east Belfast are very good: the infrastructure is there. There are fairly good roads and a proximity to Belfast City Airport and various Government Departments that act in a supply role.

545. **Mr Friel:** For people in Fermanagh or the north-west, roads are essential. I travel to Belfast three days a week, and many other people also travel. The journey can vary from an hour and three-quarters to two and a half hours, depending on the time of day and the volume of traffic.

546. The roads infrastructure is just not good enough. Back in the 1960s, there was a good road-building programme. The plan was to link the M1 and M2 motorways through to Omagh and Derry and back, with arterial routes to

Coleraine and Enniskillen. That all came to a halt when the troubles started. However, the troubles had nothing to do with business people — especially manufacturers like me. We did not support the trouble, but all the money was diverted to security.

547. The Government should call a moratorium for two reasons: first, to halt all the increases in charges that they are imposing; and secondly, to put into our infrastructure the money that they have spent in any 10 years during those 35 years. They can start where they left off in the 1960s and give us our roads. They could also hold the rates and the water charges for 10 years to give companies a chance to recover and get back to where they should have been 30 years ago.

548. **Ms Ritchie:** Did your organisation research the types of infrastructure that need to be improved in order to contribute to our economy and, moreover, contribute to those areas that have been the location for neither foreign direct investment nor indigenous business? How have you seen the improvement of cross-border roads infrastructure contribute to the growth of small businesses?

549. **Mr Roberts:** In our consultation, we are trying to find out our members' views, as their views as business owners will be essential. Obviously, when we get the data back, we will share it. I am not sure that we will have it back by 18 August, but we hope that it will be useful.

550. As Mr Friel said, roads and rail are essential. We also need a viable public transport network. We have always maintained that there will be difficulties unless the basics are right on roads and rail. Your point about the Republic of Ireland is well made. It used to be that we sniggered and looked down our noses at their roads, but now it is the other way around. We need to get real.

551. We are trying to listen to the grassroots, which are always an essential element of our policy making. We will listen to people from Fermanagh, Strabane, Antrim and Downpatrick — wherever people want to talk to us.

552. **Mr McLaughlin:** Public procurement is obviously a huge market in which there are significant opportunities for reform and savings and, perhaps, for more flexibility and innovation in the application of spending. However, you criticise the SIB's method of bundling the contracts into megacontracts. At what specific level should those contracts be pitched — locally or sectorally, with small businesses in a particular sector coming together to form joint venture bids? How exactly would you, as opposed to the SIB, approach that?

553. **Mr Roberts:** On one side of the coin, the skills gap here is such a problem that many businesses are unable to tender for a lot of work. However, as a basic rule of thumb, the SIB should always try to create as much local business as possible; that is its purpose. In a recent eight-point plan, we put forward simple ideas such as the SIB putting a small-business representative on its board. The SIB has a rather toothless advisory council, and we must ensure that it maintains investment in local businesses and makes the process as transparent as possible.

554. At the same time, the Department of Employment and Learning, the Department of Education and other providers must have an opportunity to ensure that businesses and their staff have the right skills to tender for these contracts.

*12.15 pm*

555. **Mr Friel:** The big companies in Northern Ireland are nowhere near as big as those on the continent. The fear is that big companies from the continent will come here, overlook our companies and bring subcontracting companies with them. The bigger companies here, such as Gilbert-Ash and Farrens, should get together to tender for contracts to ensure that the work is spread among the subcontractors here, or they will lose out completely. We have a lot of subcontractors and they are very competent.

556. **Mr Neeson:** The Federation of Small Businesses has interacted well with elected representatives over the years.

557. Mr Friel rightly says that the small business sector is the backbone of the Northern

Ireland economy. However, I wish to deal with the role of Invest Northern Ireland (INI) since the merger of IDB and LEDU. How does INI relate to the small business sector compared to LEDU? There is an urgent need for a review of the role of INI.

558. **Mr Roberts:** On a basic level, INI needs to communicate more effectively. There is still a misconception about what INI does. It needs to rationalise the services that it provides to new-start businesses and to indigenous businesses and how it can help them. There is great confusion about what INI does, judging from the volume of calls that our office receives from new-start businesses. So much of what INI must do comes down to simple communication. Many of our members were told that INI would have a honeymoon period, but that is long gone, and now we need results. There were concerns regarding the amount of start-up money that INI was giving to many border areas and other areas outside Belfast. For instance, south and east Belfast had more money than five or six constituencies put together along the border.

559. INI needs to connect with grassroots small businesses. The federation has put forward a policy proposal to INI for a small business touchstone group; active small business owners could form an advisory group to INI to ensure that its policies are user-friendly to existing and indigenous small businesses. There is no doubt that the “Go for It” campaign is welcome, but we need to see results. We need to find out how many of those businesses that signed up for the “Go For It” campaign are still there in years two, three and four.

560. **The Chairman (Mr Molloy):** I remind members and witnesses that mobile phones must be switched off, as they interfere with the sound system.

561. **Mr Friel:** There is not much difference between Invest Northern Ireland and LEDU. I never had any dealings with IDB, but I had a bad experience with LEDU. In 1988, it offered me £2,000 to employ two people, but I had to guarantee to keep them for two years. The amount of paperwork was unbelievable. After three weeks, the girl in the office asked me if it

was all going to be worth it. She explained how many times she had to phone LEDU, and how many times the people whom we had employed also wanted to talk to LEDU. We would have had to pay tax on the grant that we would have received, so, after about three weeks, we decided to forget about it.

562. One of the problems that I have found in the intervening time is the lack of appropriate client executives. Most of them have no experience of business, and they do not know what we are talking about. They cannot relate to small businesses at all. In my experience, that has been the biggest problem. Others I talked to have had the same experience. As Mr Roberts said, the honeymoon period for INI is long over, but no one has told them, and they think they are still on it.

563. **Dr Birnie:** The question on SIB procurement has already been asked, but in wider policy terms, can you identify areas where, when there is trade-off between external and indigenous companies, the policy has been to favour external companies? One example hitherto has been planning and out-of-town shopping centres.

564. Secondly, can you confirm that you support a degree of maintenance of manufacturing derating, but targeted on smaller firms? Thirdly, and this is in your written submission, would you say something about the impact of crime, particularly organised crime, as an impediment or barrier to growth?

565. **Mr Roberts:** I will deal with your last point first. We released crime statistics as part of the ‘Lifting the Barriers to Growth’ survey that showed that Northern Ireland has the highest level of business crime in the UK, and that upwards of 40% of business owners are not reporting crime to the police.

566. There is no doubt that crime is up alongside insurance and energy costs and is a significant barrier. We took a delegation recently to meet the deputy chief constable. A member of the delegation owns a newsagent’s in east Belfast that has been robbed half a dozen times in the past four years, and it has cost his business £12,000. He has reported everything to



the police, but he is concerned by the fact that he has only got a crime number: he has not recouped his losses.

567. We put forward a number of suggestions in our written proposals, for instance, tax relief for businesses that invest in items such as CCTV, and how the police record crime. The police say that crime is dropping, but that refers to recorded crime; it does not include the 40% of businesses that do not report crime. The PSNI and the Policing Board need to look at that. We are meeting a representative from the Policing Board later this week to see how that can be advanced. We have put forward nine points that we hope the NIO, the Policing Board and the PSNI will look at.

568. We need to get rates sorted out across the board for all businesses. Mr Friel is a manufacturer and he can give a better example of what is happening on the ground. We need a small business rates relief scheme that is appropriate to Northern Ireland. Importing the Scottish and English model will not work because, obviously, big businesses pay more. We want to ensure that manufacturers are protected. Other businesses are struggling with rates and that is an issue. There are other organisations that can best articulate the situation as regards big businesses, but we are primarily concerned with small manufacturers — and always have been. We want to see a strong manufacturing sector. The manufacturing industry has a big role to play in developing our future economy.

569. **Mr Friel:** In a recent survey we conducted, I met people and I concentrated on areas outside those in which I work. I visited a few small engineering companies. Most of them are run by men who set them up when their places of work were closed down. I went to one company that employs eight people. The owner told me that by the time he pays the rent, rates, electricity and telephone bills, wages and taxes, he struggles to take home a week's pay. He maintains that he would be much better off working for someone else — if he could get a job within travelling distance of his home.

570. Our economy will not progress with that sort of company. There must be an incentive for such companies to progress, develop and expand. Providing incentives would increase employment and prevent other companies from closing down.

571. **Dr Farren:** My question follows on from two questions that were asked about procurement. If there is what might be described as the displacement of local businesses from the procurement process, I would like to see some hard evidence of that. The subgroup is going to hear from SIB, and it would be useful, therefore, to have any evidence that you can make available. SIB facilitates regular road-shows to ensure that local businesses are able to, either singly or in consortia of the kind that Mitchel McLaughlin referred to, come together to bid for a slice of some of the major contracts that SIB manages. Therefore, if there is evidence that local businesses are not availing of the opportunities that SIB is providing, SIB may have to fine-tune the opportunities for information to be made available.

572. Labour shortages in some major projects in the private sector — for which SIB has no responsibility — and to some extent in the public sector, have had to be met by recruiting overseas, particularly in eastern Europe. Businesses have to do that to ensure that projects can go ahead. However, if there is clear evidence that local firms are unable to bid for, or are precluded from bidding for, these contracts because of a lack of help, or that they are being sent a negative message, we must hear about that. To what extent are we engaged in hearsay, rather than actual evidence of the failure of local firms to avail of major contracts? The evidence would be critical, and if you could make it available, it would be of assistance to us. It would be important to hear that evidence.

573. **Mr Roberts:** One of my colleagues is working on that, and, hopefully, we will be able to share that information with the subgroup. We do not have it to hand today, as we did not have much notice of the meeting.

574. **Dr Farren:** I understand that.



575. **Mr Roberts:** The federation worked with SIB on a mini roadshow that was targeted particularly at the construction industry, and there was a fairly low turnout. When we analysed the turnout after the event, we discovered that there is little awareness of what SIB is and what it does or does not do. That is something for SIB to consider, but the federation wants to talk to SIB about how it can raise its game and communicate more effectively.

576. There remains a wide perception that local businesses are not availing of all opportunities, but we will get the research to the subgroup when it is completed — if it is completed by 18 August, so much the better.

577. **Dr Farren:** I hear frequently from the federation about the costs that follow from statutory requirements such as rates, etc. Rates obviously contribute to the provision of local services. If the burden is shifted from one sector, then unless the level of service is reduced, that burden must be shifted to another sector. Thus, if the burden is removed from the business sector, there is nowhere else for it to go but the domestic sector.

578. I am very interested to know whether the burden can be spread as evenly and equitably as possible. Various sectors have pleaded for relief here and there without understanding that, if they get more relief, I, as a homeowner, may have to carry an extra burden.

579. Have you any advice, based on experience elsewhere, on how we can ensure that the business sector carries a due burden and that the overall tax system — rates are another form of taxation — is equitable? If we achieve that, we will not have to constantly address the pleadings for special relief from whomever, whether they are ratepayers, householders or business owners.

*12.30 pm*

580. **Mr Roberts:** I am not saying that businesses should not pay rates — of course they should; businesses make a contribution, use services and so on. We want a fair rates system. There is real concern not only among manufacturers but across all sectors that the rates system is not fair. We must ensure that the

rates and tax systems in Northern Ireland can be used to stimulate new business and expand existing business to ensure that they have the capital to grow.

581. This issue must be considered in context: Northern Ireland has the highest insurance costs, highest crime figures, highest energy costs and major infrastructure problems. On top of that, we pay rates and, in the future, water charges. One of our concerns about water charges is that small business owners will be hit twice — at home and at their place of work. Considering all those problems together, it is fair to say that the rates and tax systems should be adjusted to stimulate business growth.

582. We strongly believe that if the rating system is right and businesses have more capital, the revenue from the rating system will increase, which will benefit general service delivery. The Minister for Finance in the Republic, Brian Cowen, made a good point about corporation tax; he said that the Irish Exchequer brings in more money now that corporation tax is 12·5% than it ever did when the percentage was in the mid-twenties. That ensures that public services — education and health services and so on — continue to be funded. Given the problems faced by the business community and the high cost base here, the Government must ensure that the tax and rates systems do not push it over the edge. That is our concern.

583. **Dr Farren:** You are effectively saying that central Government should pick up more of the tab. Should we seek a 10-year rates relief package?

584. **Mr Roberts:** That is one option. As you know, we are consulting our members on what an economic package should entail, and that option has been outlined. How the system is used to stimulate economic growth is a key issue.

585. The high cost base here — as a result of the high insurance costs, energy costs and crime — is off-putting to small new-start businesses when they consider the huge amounts of money that they will pay in their first year. As a result of that high cost base, surviving to a second or third year could be a major problem.

586. I mentioned insurance, and there is no doubt that there is a degree of stability in the insurance market now.

587. Certainly, premiums are high, but there is stability. We have not seen the record increases of up to 500% that we saw a few years ago. That is still a problem to be resolved. Until we get a stable insurance market in Northern Ireland that provides cost-effective premiums to small business, in four or five years' time we are going to be back to these huge hikes. This is something that we have worked on extensively, both with the insurance industry and with the Treasury, ensuring that our own members can address issues like health and safety so that premiums are cost-effective. We must address this burden of the high cost of doing business. That is one of the elements that a package would do. It would take some of that burden off the business community so that it can grow, expand and provide the jobs and investment that Northern Ireland needs to see.

588. **Ms Gildernew:** I, too, welcome you and thank you for your presentation. In rural areas what is done in support of small business is even more important, since we do not have the foreign direct investment, Civil Service or health jobs that cities and towns have. I am also concerned about the lack of investment, not just in roads, railways and technology, but in, for instance, the Ulster Canal. Development of that is the missing link with the rest of the inland waterway structures in Ireland. We can develop the tourist potential there.

589. I worked with Leslie Morrison of Invest Northern Ireland in a recent case. A company in Enniskillen planned to double its workforce from 30 to 60. It was looking for bigger premises in and around Enniskillen and had an offer from Carrick-on-Shannon, not only for purpose-built premises, but for an economic package to go along with that as well. It was very tempting, considering industrial derating and other matters, for that company to relocate. We worked hard to ensure that it did not and that it got the help that it needed. However, I find that Invest Northern Ireland is often not agile enough, not fluid or quick enough to deal

with these things as they come. We deal with an economy in the twenty-six counties that is much more aggressive and has had an impact on my constituency.

590. I should declare an interest, because my family is involved in the engineering sector and, John, I understand fully what you were talking about. I feel that industrial derating is going to hit us very hard. Double that with the corporation tax rates, and we are going to lose. Companies like Powerscreen International Distribution Ltd have generated lots of small engineering firms around Tyrone that are dependent on them for employment. If we go down the route envisaged by the Treasury, engineering will go the way of textiles and food-processing.

591. I know what you are doing with the further education sector and of the initiative that you have taken with the ANIC. The skills deficit is important. What do we need to know? What recommendations do we make to ensure that we get people skilled and educated for the jobs that we need to create, particularly for the new growth sectors such as renewable energy and recycling? What can we ask of that sector to create skills to build the new economies for sustainable long-term employment?

592. **Mr Roberts:** On your point about education and skills training, 25% of school leavers have poor numeracy and literacy skills. That is a major handicap for any wannabe successful economy. A recent Northern Ireland Audit Report showed that over £40 million has been spent, yet we have seen no real improvement in young people's numeracy and literacy skills. This is one of the main reasons why the Jobskills programme failed. Many of the Jobskills providers had to make up the gap because young people did not acquire those skills at school.

593. We work hard to build relationships with further education colleges. The scheme that we work on with the Association of Northern Ireland Colleges (ANIC) is a simple one. It is an awards scheme, but one that increases links, not just between further education lecturers and businesses in our five local branches, but also

connects students with businesses and our branch members. We put our money where our mouth is with that relationship.

594. In respect of universities, we must be very clear. Looking at the whole gamut of education, we have a very academic focus in Northern Ireland. That obviously suits some people, but so much more must be done on the vocational side. We have to look at degrees to see whether they have a vocational element, or an opportunity for work placement. Many degrees do not have that. I occasionally lecture on the University of Ulster's communications, advertising and marketing courses, which now, in the first year of study, have an entrepreneurship module, enabling many graduating students to consider self-employment as a consultant. That brings us to the wider notion that careers advice must start selling self-employment as a realistic career option.

595. Universities and further education colleges must provide those basics. By comparison, further education colleges are in one respect ahead of universities. Most colleges now have some sort of liaison person who can connect with the local business community. I know that the University of Ulster has made such an appointment.

596. One of the difficulties that small businesses face, if they have a research and development idea connected to the universities, is where to start. Queen's University and the University of Ulster have huge departments. In response to the universities' seven-year review, we asked them to keep things simple. There should be one point of contact for a business approaching with an idea, so that they can be pointed in the right direction, encouraged and supported, rather than just looking at a mass of departments and wondering where to begin.

597. Perhaps John will say something about cross-border business.

598. **Mr Friel:** There is not much to say, but someone has already mentioned cross-border co-operation on education in general, which would be a good thing. Years ago, the South was lacking, and suffered by comparison. It was not so good, whether the subject was education

or roads or whatever. Everything has turned around now. The education system is rated as one of the best in Europe.

599. **Mr Roberts:** One of the things that our barriers to growth survey discovered was that staff training in small businesses was difficult. When the Employment Bill went through the Assembly, and when we gave evidence to Dr Birnie when he was chair of the Committee for Employment and Learning in this very room, we pointed out that much of European employment law is based on big businesses with human resources departments and perhaps 200 or 300 employees. That does not help small businesses that do not have human resources departments and that are already overburdened with paperwork. It becomes more difficult to facilitate staff training.

600. It is fine if you have a business with 400 staff — you can be flexible. If you have a staff of four and one of them is out, that cuts your workforce by a quarter. Businesses have to get their staff trained, but we need a training strategy that helps small businesses. One of the statistics about clearing barriers to growth revealed that 65% of our members are willing to undertake staff training if more funding and support were available. The will is there: it is how practically business owners can find the time and discover that training enhances their business rather than hinders it.

601. **Ms Gildernew:** I was on that Committee for a short while after the birth of my first son. While I fully appreciate the difficulties that maternity rights cause for small businesses, we must also look at the barriers to women entering the workforce, such as flexibility of maternity leave and family-friendly working hours.

602. To what extent do you feel that the lack of affordable, quality childcare, particularly in rural areas, prevents women from getting back into the workplace?

*12.45 pm*

603. **Mr Roberts:** It is not only a matter for employees, but for business owners as well. It is a problem across the board.

604. The key thing is that there is a different relationship between small-business owners and their employees and that of big-business owners and theirs. There is more one-to-one treatment. Often we feel that, rather than legislate for a family-friendly business environment, the small-business owner should sit down with the employee and find the best way to accommodate them, ensure that their job is protected and manage business needs too.

605. We are concerned that some employment legislation discourages employers from taking women of child-bearing age. No one wants that situation. We were leapt on by a former Member of the Assembly — who is now in a very distinguished position — who could not understand that we were not advocating that. Rather, we were warning that unscrupulous employers would see the legislation as a pretext to discriminate.

606. **Mr McNarry:** Thank you for reminding me; when I started up in business as a 26-year old it was with great gusto and entrepreneurial spirit, and it only became difficult when it became bigger. We are in danger of losing entrepreneurial spirit. It used to be big in Northern Ireland, and those who used it well left here but have now come back. Too many are in business in that sense but are self-employed, so they earn a wage like their employees but carry all the responsibility. When I read that 89% of businesses employ fewer than ten employees, I understand the implications of that. What is stopping small businesses from growing? That statistic is very high, but it represents a small number of employees. We might look at how to address obstacles to growth in the workforce.

607. What percentage of your members own their premises? That figure is crucial to any business analysis. Getting young people into work, and into sustainable employment in particular, is a key issue. It was highlighted by the first deputation. Government must wrestle with this, because it carries all sorts of implications for society.

608. What specific ideas do your members have which would encourage more apprentices?

What field of apprenticeships could your members point to that look like having sustainable employment gains? I mean apprenticeships that do not result in being out of work in three or four years. If you are to encourage schools to promote them, and Government must back this up, you must be able to promise a good chance of sustainable employment. It is not a case of getting on your bike, as Tebbit said. It is too small a place to cycle anywhere to find the work that is needed.

609. **Mr Friel:** If people get on their bikes, no matter where they go, they will encounter the same situation. We return to the same old story: it is manageable for people in business on their own to employ six, seven or eight people, but if their business is offered good contracts and they attempt to expand, they must decide whether they can cope with those contracts and whether people are available for employment, and when those contracts have been fulfilled, whether there will still be a job for those people.

610. The same situation applies to apprentices. There is no point in small businesses taking on apprentices if they cannot guarantee that they will be in business in 12 months. Together with tax, rates and the cost of energy, as Glyn has pointed out, water charges are proposed and regulations are coming from Brussels and London.

611. In the past two years, I have laid off about five people, because we had to invest more in equipment than in people. That is just the way that it is; we could do nothing about that. It would be nice if I could say that I was going to employ five more people, but that will not happen unless something is done about the raft of regulations and unless proposed water charges are dropped and the rates left as they are. Much can be done. A hold can be put on their implementation for whatever period you as an Assembly can negotiate with the British Government, but we want to give businesses a chance, not only to progress but to stay put. There are many businesses that employ nine or 10 people who will not be here this time next year if they are burdened with all of those costs.

612. **Mr McNarry:** There must be a recce on the cost of unemployment as it relates to people



employed by small businesses. We must discover many facts and figures. If 100 people are made unemployed, how much does that cost?

Conversely, how much does it cost to employ 100 people? It may be helpful, if you have the resources, to come up with those figures, because that is an argument that small businesses must make.

613. Having sat in your place, I know that there is a sense out there that you are always moaning, bellyaching and crying. You are bit like the farmers about whom people unfairly say: "Look at the four-wheel drives that they have." When that representation is made to people who are potentially preparing to go into government, you must turn things around so that, whatever your lobby is, it will help reach solutions for sustaining what you have. Where is the entrepreneurial spirit? Is it all to be found in Korea and Japan? Must we import everything? When we look back on our history, we see that we made things. We produced and designed them, and the world then took them and sold them. There is bound to be something of that still there, and I hope that you could show us a glimmer of hope for how we recover that.

614. **Mr Roberts:** First, we must address our high cost base. If we can address much of the broader policy issues that John mentioned — the regulations and red tape — there is absolutely no doubt that small businesses would take on more staff.

615. The problem lies in a perception that we hear about all the time. A large section of our membership is made up of people who are self-employed. They have enough resources and they prefer to stay at that point and not expand, because if they expand, they must take on more staff, and they see that as additional paperwork. We desperately need to get away from the situation in which small businesses think that it is better to cap the number of employees or not employ anyone at all.

616. We proposed a range of suggestions in our evidence to you today, but the only way that we can address the cost base issue is to place entrepreneurship on the education curriculum from whatever stage possible.

617. We need to move away from a solely academic focus. When the Federation of Small Businesses advertised basic administration jobs, a large number of the applicants for them had Masters degrees of every hue. That is unacceptable. No one who takes the time and trouble to go to university should have to apply for an administrative position. We have to ensure that we have jobs for graduates.

618. However, when steering graduates into career development we must let them know that self-employment is an option. We need to ensure that entrepreneurship is on the curriculum as early as possible and that all university courses have some vocational training and practical application. Some people come out of university with very little experience of the world of work, which can be a problem for employers as they do not see university graduates having a grounding in workplace needs.

619. **Mr Poots:** The entrepreneurial spirit is alive and kicking in Northern Ireland, but perhaps it can be found more in those who go into traditional businesses: welders and joiners are setting up business because they have no other option. Those who go to university tend, perhaps, to take relatively well-paid jobs with a pension. Perhaps they are unwilling to take the risk of going into the market and establishing their own businesses.

620. You mentioned crime, and I see the article in your submission on fuel duty. Do you believe that now is an opportune time to challenge the Chancellor and the Government on fuel duty? There are three prongs to launching such a challenge. First, the Irish Republic has said that it will increase fuel duty in response to environmental concerns that the European Union raised. That may reduce the variation in the price of fuel between Northern Ireland the Republic.

621. Secondly, a decrease in fuel duty would increase the revenue to the Northern Ireland tax budget, and Seán Farren raised that issue earlier. Many of the proposals that we are discussing would reduce tax revenue, but the proposal to reduce fuel tax would increase tax revenue for the Treasury.



622. Thirdly, there are people at this table who represent an organisation that is up to its eyeballs in fuel smuggling, and we will not achieve devolution in Northern Ireland while that goes on. If the Government are serious about delivering devolution in Northern Ireland, they have to deal with crime. Although the Assets Recovery Agency has gone after some people, many of the big hitters have not been touched.

623. The Government benefits three ways: environmentally, in increased tax revenue, and in the achieving of devolution.

624. **Mr Roberts:** Perhaps John can illustrate my point with a case study, but the federation has twice suggested to the Northern Ireland Select Affairs Committee that fuel duty in Northern Ireland should be equalised with that of the Republic. Prof Goldstock's report, which came by the Northern Ireland Office, came to the same conclusion. Until we deal with the difference in fuel duty, we will not solve the problem. We have to remove fuel smuggling by removing the smugglers' incentive.

625. Many filling station forecourts on this side of the border no longer exist — they cannot exist. The Northern Ireland Office has ducked and dived on this issue for too long, as has the Treasury. The work of the Organised Crime Task Force and the Assets Recovery Agency will amount to nothing while the difference in fuel duty exists on the island.

626. **Mr Friel:** I do not know the solution. I have a business across the border as well as one on this side of it. We had an account with two filling stations, one in Lifford and one in Strabane. The owner of the filling station in Strabane hung on for as long as he could — at one point we were his only customer — before he had to pack it in.

627. Twenty years ago, there were seven filling stations in Strabane. Three years ago they were down to just that particular one, which shows how many have gone. Twenty years ago petrol would have been much more expensive in the Republic, and people were coming in droves from Donegal, from Gweedore in busloads on Saturdays, and then it became

cheap for them to come in cars and fill them up. That has turned around.

*1.30 pm*

628. There used to be three filling stations in Lifford, and now there is only one, and it almost closed too. The only people who supported it were the customs officers and guards who bought fuel there. When you go over there now you have to join a queue. It is open 24 hours a day. There is no talk about a filling station in Strabane, and there probably never will be one there again.

629. **Mr Roberts:** There is a double benefit. It is not just about the fuel duty, there is also the job creation that would happen as a result. You would be creating legitimate jobs as a result of which people would be paying taxes as opposed to having people behaving illegitimately in the black market.

630. **Mr Friel:** The small shops and car washes with filling stations have all gone.

631. **The Chairman (Mr Molloy):** Time is going against us. One thing I spoke to Invest Northern Ireland about was what stops a small family business from getting into the export market. Is there a mechanism whereby the Government guarantee assistance that could help small businesses to expand into the export market? Obviously, the risk factor would be high, and sometimes family businesses are quite content to operate at a certain level and be managed and controlled, as John said, at that level.

632. **Mr Friel:** There would have to be Government guarantees. Most people, when businesses reach a manageable level, are inclined to stay there. Although business and turnover might increase rapidly, the bottom line might stay the same at the end of the year. Therefore why take the chance and the hassle? There is not a lot of support from Invest Northern Ireland or the banks. Most banks will not work with the Government guarantee scheme, and that is the way things are. Differences between banks now as regards borrowing large sums of money are practically nil, and you would need a large sum of money, and a lot of help from Invest Northern Ireland,

if you were going to go into the export business. That help is not forthcoming.

633. **Mr Roberts:** A lot of this is not necessarily about high-level trade delegations; it can be very simple. We have air links with places such as Prague — and the Czech Republic has a very similar economy to ours: small businesses and rural based. However, we have not used that air link effectively; we have not used it as a sort of economic corridor to bring entrepreneurs and small business owners from Prague and put them in a room with small business owners here. A lot of it is as simple as that. All small business owners are compulsive networkers, and much should be done at that basic level. The easier it is to facilitate that, the better.

634. There is no doubt that we need to find new markets and develop products that we can export. It is a big job, and we are acutely aware of it and have made a suggestion in our report to the subgroup.

635. **The Chairman (Mr Molloy):** Thank you for coming along. You have given us a lot of information. If you have any further information would you provide it to the subgroup within 10 days so that it can be processed by the Clerk? A copy of the Hansard report of this session will be available within 24 hours for you to check, and I would ask you to respond to the subgroup on that. We will break for 20 minutes. Sandwiches are available, and you are welcome to stay for those.

*The subgroup was suspended at 1.04 pm.*

*On resuming —*

*1.32 pm*

636. **The Chairperson (Mr Molloy):** We shall let Mr Nellis begin.

637. **Mr Liam Nellis (InterTradeIreland):** First, I wish to thank members for giving me the opportunity to make a presentation. The subgroup is engaged in a very important piece of work, and it is important to everyone to get the Assembly system up and running again.

638. The subgroup is examining the economic challenges facing Northern Ireland. Owing to our remit, we in InterTradeIreland speak from a certain perspective. Our role and remit clearly come from legislation such as the British-Irish Agreement Act 1999. That role and remit are clearly all-island in nature, and I will talk from that perspective. However, first, we wish to identify the major impediments to the development of the Northern Ireland economy. That is what you have asked InterTradeIreland to do, as well as to consider other matters, including how a possible peace dividend and economic package might be delivered.

639. I will not go too far into the question of fiscal incentives, because that is really an issue for the UK Government. If members wish me to make personal comments on that, I can, but in an all-island context, it would not be right for me to talk about that.

640. InterTradeIreland's strategic remit puts us in a reasonable position to talk about issues facing businesses across the island. We have delivered value to more than 9,500 companies in the six years that we have been around.

641. The impediments that we have identified are not ours but come from examination of various sets of analyses. I am sure that, this morning, members will have heard many of the points that I will make. Members will hear those points again over the next few weeks as they meet other people.

642. It is quite clear that there is a set of impediments to the development of the Northern Ireland economy. Those impediments have been identified by the Department of

Enterprise, Trade and Investment, by the Economic Development Forum, by the Business Alliance and by the Federation of Small Businesses. I will talk members through InterTradeIreland's analysis of those impediments, and then I hope to talk about how all-island collaboration can contribute to economic regeneration as part of the wider economic package.

643. To set the context, we believe that the Northern Ireland economy has been performing well in recent years. Wealth has increased — the statistics support that. Gross value added per capita more than doubled in Northern Ireland between 1990 and 2003. Job numbers have increased, mainly due to growth in the services sector. Unemployment has quite clearly decreased. Those are very positive indicators.

644. However, that apparently strong performance masks long-term and imbedded structural weaknesses in the economy. There are two real core metrics of that, which will come as no surprise to anyone around the table. I could state the first one in two ways: the economy is overly dependent on the public sector; or the economy has a very small private-sector base. Public expenditure as a share of GDP is now 71.3%, compared to only 43% in the UK and 31% in Ireland. Northern Ireland's public sector share of employment is 32%, and the annual subvention from the UK Exchequer is approximately £6 billion.

645. That public-private imbalance has two main implications: first, an obvious vulnerability to public spending decisions that are largely taken at national Government level; secondly, the private sector lacks the critical mass to generate the step change in economic performance that we have all been discussing.

646. People seem to think that, by reducing the public sector, all of a sudden green shoots will grow and a very healthy private sector will fill that void. Obviously, I do not believe that, and I am sure that nobody here does either. Serious steps will need to be taken in order to help during that transition.

647. The second core metric is the persistent wealth gap between Northern Ireland and the rest of the UK. Per capita, the gross value added

is 20% lower in Northern Ireland than in the rest of the UK, and very little progress has been made in closing that wealth gap.

648. A number of key challenges that we must all meet roll from those two main structural weaknesses. The first is to increase productivity — again, that is nothing new. Labour productivity has fallen by eight percentage points against the UK average. Northern Ireland productivity is the lowest in the UK.

649. Productivity can be boosted by increasing capital investment, growth in the labour force and other factors that affect total productivity, such as technological advances, better organisation of business, better redistribution of resources from low-productivity sectors into high-growth sectors and, importantly, institutional and political stability.

650. The challenges that I will refer to are all related to the achievement of higher productivity. Most have been identified by the Economic Development Forum and others under the objective of 'Economic Vision for Northern Ireland', with which you will all be familiar. That identifies innovation, entrepreneurship, skills and infrastructure as the key drivers of future economic competitiveness and wealth. We will focus on those areas.

651. We need to increase economic activity. The figures have already been mentioned: there are 289,000 economically inactive people in Northern Ireland, which equates to 27.4% of the working-age population. That is the highest level of any region in the UK.

652. Northern Ireland is ranked ninth out of 12 regions in the UK for entrepreneurship. Our rate of entrepreneurship is half that of the United States of America, and there are reasons for that. Another significant factor is that Northern Ireland has an unexpectedly low level of female entrepreneurship, and we must understand why.

653. We need to increase skills within the labour market through initial skilling, reskilling or upskilling. Some 24% of the working population have no qualifications. That lack of qualifications impacts on wealth creation,

because higher-level educational achievement has a bearing on earning capacity.

654. The map we have provided shows that low-level educational achievement is a particular problem in border areas, especially to the west, which highlights an imbalance. It is also reflected in the next map, which illustrates lower earnings. The further away someone is from Belfast, the less money he is capable of earning.

655. Another big issue for us is the creation of R&D and science and technology innovation. Northern Ireland R&D expenditure continues to lag way behind that of the UK and Europe. Northern Ireland is sitting at 1.19% of gross value added; in the EU, it is 1.93% and even within the UK as a whole it is 1.86%. Clearly, we need to up our game if we want to be in any way competitive.

656. Before we move to questions, I will outline how we see all-island cross-border collaboration helping to contribute to economic regeneration. As the pace and intensity of global competitiveness increases, the search for competitive advantage becomes ever more complex and rigorous. In other parts of the world, greater economic co-operation between regions has been found to create gains in trade and investment.

657. Figures for cross-border trade in 2005 have just been released, and it is encouraging to know that cross-border trade is up by 5.5%, reflecting an almost 9% increase in North-to-South trade, as opposed to 3% South-to-North. At the moment, Northern Ireland is doing considerably better from North/South trade than the Republic. That makes sense, because the Southern market is more important to Northern Ireland than vice versa. Therefore, Northern Ireland gains more.

658. Greater economies of scale can be gained through the administrative pooling of resources, which delivers more efficient and effective services. Several people talked about infrastructure, and there are already positive signs with the Strategic Investment Board and its sister agency in the Republic, the National Development and Finance Agency (NDFA),

which is headed by Anne Counihan. Both agencies are already talking about collaborating on R&D infrastructure.

659. We recently published a report called 'Spatial Strategies on the Island of Ireland', which has come from the International Centre for Local and Regional Development. That document contains the analysis that was asked about; there is an analysis of spatial planning and the importance of a joined-up approach to it. That approach could address questions such as where domestic houses are built, where waste resources are sited and how roads are developed. It makes so much more sense for neighbours to work together than separately.

660. We can promote the wider economic benefits of knowledge transfer by using networks and clusters. Some people get hung up on that terminology, asking what is, and what is not, a cluster. The important thing is to get people collaborating to mutual benefit across the island. With that, everybody wins.

661. Early in InterTradeIreland's life we conducted a detailed analysis, with a roadshow that went to four locations on the island. We talked to 1,500 large, medium and small companies across the island. It was expected that people would talk about impediments such as the old traditional accepted truths about poor infrastructure and volatility of the currency, which, at that time, was the punt.

662. From that analysis, the biggest issues that emerged were the softer issues. Business relationships were lacking, and people did not know the players. To do business, trust is a prerequisite. If those relationships are not there, you do not do business. Therefore, much of our work goes into improving that area.

663. Lack of information is the other big issue. Many companies, particularly small ones, have told us that they can find information about gross domestic product (GDP), good manufacturing practice (GMP) and gross value added (GVA), but they have no idea who makes farm gates in County Cork, how many are made, what it costs and where raw materials are from. All that information was not available.



664. That has led us to direct much of our resources to creating new knowledge about the island economy, disseminating that and getting people to work together and build relationships. Those are every bit as critical as the hard infrastructure. We must get people plugged in together.

665. Enhanced co-operation can create a larger domestic market. In a global environment, it makes absolute sense for a market of one and a half million people and a market of three and a bit million people to form a market of over five million people. It is a no-brainer. Everybody gains, and we can create new business opportunities. We are not saying that it is an either/or situation; Northern Ireland's major market is clearly still the rest of the UK. Nobody is saying that our attention should be deflected from that.

666. There is another way to look at it. You can have it both ways, and we should encourage businesses to develop the North/South all-island dimension every bit as energetically as they have east-west relationships. Again, everybody wins. Helping to create a large and more dynamic private sector is a key stage in helping to get that leap forward in economic performance.

667. During InterTradeIreland's initial years, we conducted tests and pilots to get some ideas and companies working together. However, we are now at the point where our programmes are mature enough and our thinking is evidence-based. We feel that the way to get more international attraction for this island is much closer collaboration between businesses across the island. That comes in so many different forms.

668. Our corporate plan stated that we wanted to develop all-island businesses and networks. In the first year of that plan, we established 19 such networks.

669. Some of them are sector-specific, particularly in the area of biotechnology. We brought together Bio Northern Ireland with the Irish Medical Devices Association and the Irish Bioindustry Association. They are all working well in the life science area.

670. InterTradeIreland is also working with information technology, with Momentum — the

Northern trade association — and the Irish Software Association, which is affiliated to the Irish Business Employers' Confederation and ICT Ireland. It is not about getting together for a beer or playing a game of golf; it is about serious engagement. On the software side, InterTradeIreland has supported those organisations in developing a feasibility study to create an all-island wireless test bed. Many new wireless companies across the island have to test their products off the island, because there is insufficient scale on the island, but we have been working with those companies to provide that scale, as it makes more sense to develop the test bed on the island.

*1.45 pm*

671. InterTradeIreland has supported the North West Science and Technology Partnership. We work in what we call "communities of interest" with microenterprises, which are companies that fall below the radar of Invest Northern Ireland and Enterprise Ireland, as they have 10 employees or fewer. Quite often, those companies are too small to attract the attention of organisations with portfolios, but we have brought together the county enterprise boards and the city enterprise boards in the South with the local enterprise agencies in the North, and we regularly hold all-island events. Every county brings at least five or six companies to those events, so linkages and relationships develop across the island.

672. Some companies are involved in areas of excellence that InterTradeIreland has created. One area is benchmarking. We have set up the Irish Benchmarking Forum. When InterTradeIreland was set up, LEDU, IDB, Enterprise Ireland, Shannon Development and Foras na Gaeilge were all considering different ways of benchmarking their organisations. Some used the European business model, some used the CAM Benchmarking model, and some used the world-class cluster model. We got them all to agree a set of core metrics, and now they work together on an all-island basis, and everyone knows what each other is talking about.

673. InterTradeIreland is doing a lot of work on equity finance across the island. We have an



all-island seedcorn competition, which encourages potentially high-growth businesses to get involved and to make their pitch for investment. Our approach is to get more active collaboration across a range of sectors and issues and move that forward.

674. Science, technology and innovation are key areas for InterTradeIreland, as are sales and marketing and business capability improvement. We are delivering a range of initiatives, but I will not go into detail as members have had a long morning. In science, technology and innovation, for example, the fusion technology transfer programme works effectively. The model is that we find a company in one jurisdiction that has a product or process development need, and match it up with a university or knowledge centre in the other jurisdiction that can help it. Then we put a graduate in between the two. We were supposed to do 20 projects in the pilot exercise. At that time, I reported directly to Sir Reg Empey and Mary Harney. They liked it so much that we did 63 projects in the pilot, and we have now rolled out another 120.

675. InterTradeIreland also has a collaborative programme called Innova, which supports R&D co-operation between companies North and South, and that is working well. We have an all-island research portal where researchers in any university on the island can publish a brief. More than £50 million of direct business development value has been created in the past three years through the various programmes that InterTradeIreland has been involved with.

676. Finally, all-Ireland collaboration is a potentially lucrative source of competitive advantage for Northern Ireland, and we strive to address the key structural impediments outlined. Such collaboration offers opportunities for the private sector to become more competitive and provides opportunities for the public sector to be more efficient and effective in delivering services. It should be an integral part of any future economic development strategy for Northern Ireland. The areas of science, technology and innovation offer the most scope for mutual beneficial collaboration, and we should invest any windfall coming from the

peace dividend in those areas, as they are critical for us all moving forward.

677. We need to move from being investment-driven to being innovation-led, and that comes from both economies. We need greater concentration on an all-island approach to labour market skills development. We need to be more joined up on infrastructure. The key vehicle for moving forward is all-island collaboration for everybody's benefit and all-island business networks.

678. **Ms Gildernew:** If the map on page 9 of InterTradeIreland's submission were superimposed on a map of Ireland that showed motorways and dual carriageways, it would be obvious that the high earners live near the best roads. The west will always be disadvantaged. My constituency, and those of West Tyrone and Foyle, do very badly. The border is an obvious impediment to economic growth and stability.

679. What more can be done? Mr Nellis has given us a very comprehensive description of the work in which he has been involved over the years, but what else must be done to turn things around? The lack of political stability has had a major impact on the Six Counties. It is mind-boggling. We must turn that around if we are to have any kind of future and if we are to ensure that people stay in areas such as Fermanagh and Tyrone.

680. **Mr Nellis:** We are not looking at either jurisdiction; we are looking at the island, and we are the first organisation to take that island view. The European programmes that involved INTERREG and the Peace programmes stopped at the border counties of the Republic and the six counties of Northern Ireland. The International Fund for Ireland did exactly the same. There is an imaginary line drawn across the island and nobody goes beyond that line. As a result, there has been a turning of the backs of the two economies over what some people say is 30 years. It is not; it is 80 years, or since partition.

681. The de Valera Governments imposed tariffs on trading with the North. The big slogan in Dublin business circles after partition was: "Burn anything British but their coal." The

issue is much bigger than the past 30 years. We are trying to redress a structural fracture between the two economies that is much more deep-seated than that.

682. In answer to Michelle's question, we must move more from involvement and accept that there are advantages to be had by collaborating across the island to mutual benefit. We must engage seriously on issues and start building infrastructure together, rather than just talking about it. That is only one example. There are R&D funds in the North and South. Why not genuinely open up the R&D funds in the South to companies from the North, and vice versa? I could provide many other examples.

683. The South stands to gain as much as the North over time. While the South is way up there now, it recognises that for it to keep pace and stay in that position it must be much more innovation-led. We would argue for much closer collaboration on innovation, R&D and competitiveness.

684. **Mr Aidan Gough (InterTradeIreland):** It is very clear that both Governments would benefit from collaboration on strategies to solve the issues pertaining to border areas. The north-west is a problem for the Irish Government, as it is for the Administration here. Every indicator shows that County Donegal is at the bottom of the table in the Irish Republic. Instead of the two Governments developing separate strategies for border regions, it would make sense for them to develop their strategies with a cohesive approach to spatial planning, economic development, education and health. Both sides of the border would benefit. The border will not be addressed within one context or the other, as there are economic problems in the border areas.

685. **Dr Farren:** I cannot help but make the political point that the party that so constantly reminds itself that it is the largest party in Northern Ireland is absent from this session. I find it difficult to believe that it could not provide participants, not least because its spokespersons so frequently throw cold water or scepticism over the issues and the way that they are addressed by bodies such as InterTradeIreland.

686. I trust that the submission will be read by the DUP's representatives on the Preparation for Government Committee, and that the lessons that we are trying to extract from the submission for the way forward will be obvious.

687. I do not expect either of our visitors to comment on those remarks.

688. **Dr Birnie:** You are being mischievous.

689. **Mr McNarry:** You just wanted to make them, Seán. Are you making them for Hansard?

690. **Dr Farren:** It is regrettable that the DUP is not able to participate and put its point of view to our colleagues from InterTradeIreland. I have a number of questions to ask, so I will have to restrict myself. Mr Nellis made a point about business being innovation-led. I have been a strong proponent of some kind of all-island research strategic alliance, which would involve the business sector, public sector and the centres where research is undertaken — mainly, of course, in the universities. I would like to see the establishment of new funds targeted at sectors in which economic growth could be expected and better use made of existing funds. The South has moved ahead with the all-island Science Foundation Ireland, and Northern universities have access to UK sources of funding as well as some other specific sources.

691. We are in what could be described as a back-to-back situation, or one in which some bilateral arrangements — or maybe trilateral — on an ad hoc, project-by-project basis can emerge, but there is not the strategic overview that might drive a common approach. After listening to the remarks of InterTradeIreland's representatives, I would like to think that the establishment of an over-arching strategic alliance — such as that I have suggested — supported by, possibly, an allocation of existing funds or the creation of new funds, would contribute significantly. That does not preclude the involvement of institutions outside of Ireland, North and South. There is a clear imperative to do that, because while Northern universities gain access to UK funds and have their own, they are on the periphery and there is much interchange at other levels among the

universities on these islands. There are only nine universities, plus the colleges — or the institutes of technology — where research takes place. Therefore, it is not a huge constituency.

692. I would have thought that with the prompting of InterTradeIreland, the two Administrations — together with the universities and other institutes where research is taking place — could come together with the private sector in the ways that I am trying to hint at. There would be considerable potential in that, with nobody being exposed politically.

693. **Mr Nellis:** I agree with you 100%, Seán. Some very good stuff is already happening in that area. I will give you two or three examples of those, but I am sure that there are more.

*2.00 pm*

694. We are involved in providing the secretariat for the United States-Ireland R&D Partnership, which started its journey in October 2002 at the United States-Ireland Business Summit in Washington. The Secretary of Health and Human Services in the United States, Tommy G. Thompson, became interested in a cancer oncology project that was then under way. Prof Paddy Johnston was involved in that, and he used his links in the National Institutes of Health and National Cancer Institute in the United States to bring in colleagues from the South and develop a tripartite approach to cancer research. That research is going strong to this day.

695. That model encouraged us to look at other areas, including R&D. It was excruciating; trying to get two jurisdictions to agree to something is difficult enough on a day-to-day basis, but getting three to agree was so hard that several times we almost gave up. However, the United States-Ireland R&D Partnership is now up and running. Researchers are working on multiple sclerosis, diabetes, avian flu, sensors and nanotechnology. That means that there is active collaboration across the pond and on a North/South basis.

696. The partnership worked out how to release the funding. I was at the residence of the American Ambassador to Ireland for the partnership's recent launch, at which Aideen

McGinley announced that additional money would be made available for the northern elements of the project. That is very encouraging.

697. The British-Irish Intergovernmental Conference is looking carefully at that development. It is meeting today, and it will consider, among other things, providing a new impetus to R&D collaboration. That could be achieved by perhaps getting the two Governments to work together, with an international partner, to access the European Union framework programmes on R&D. Those programmes provide lots of funding, which has been just sitting there. The funding is similar to penalty kicks that have been available for the taking for quite a long time but no one has gone near them. With a bit of imagination we could really get in there and score some big things for the island.

698. The nine universities in Ireland were mentioned. I sit on a panel of Universities Ireland, which brings together the nine university presidents, provosts and vice-chancellors. Again, that group is not just a talking shop. InterTradeIreland has been working with Universities Ireland on the collaborative commercialisation of university research. We gave the group a report on that, which it will adopt at next month's meeting.

699. A lot of good stuff is already happening. I am not saying that there is a vacuum, but a much more strategic and co-ordinated approach, with the pace set by the two Governments rather than bilaterally by two Departments, would move this to a level that will benefit everyone.

700. **Mr McNarry:** Chairman, I am not quite sure what Sean Neeson and Liam Nellis were having a cosy chat about.

701. **Dr Farren:** Seán Farren.

702. **Mr McNarry:** Seán Farren; I am sorry. What did I call you?

703. **Dr Farren:** Sean Neeson.

704. **Mr Ford:** Sean Neeson will not sue.

705. **Mr McNarry:** Perhaps they were hatching an economic R&D unitary state under some other guise, but we have been alerted to that and must keep a careful eye on it.

706. **Dr Farren:** I do not know what you are on about.

707. **Mr McNarry:** That is the problem. It is not for me to defend a certain party's absence from this meeting, but I share its cynicism, which I am not repudiating. Perhaps one should give cognisance to unionists' feelings. However, had certain members participated in this discussion, they, like me, would have learnt from it. I found the meeting beneficial, and I am grateful for what I have heard up to now.

708. Continuing to be sceptical, I have three questions for Liam and Aidan. Is there a bias in cross-border trade? Do barriers remain to be broken? Do we still live with the nationalist preference for buying Irish and the unionist preference for buying British? Is that still noticeable not just in the marketing but in the purchasing of products?

709. The discussion on collaboration was very intriguing and interesting. There are bound to be red-tape complications with it, so will you explain a couple of them?

710. Are many businesses selling to or buying from each separate jurisdiction, whether that is manufacturing, retail or marketing?

711. **Mr Nellis:** I will answer your questions in the order in which they were asked. There are still barriers; some actual, some virtual, some psychological. There is still a chill factor that works both North/South and South/North. Fifteen years into the Celtic tiger, there is still a widely held perception among Northern businesses not to do business with those fellows down there, because they cannot get money out of them.

712. **Mr McNarry:** Is that not true?  
*[Laughter.]*

713. **Mr Nellis:** I do not know. My experience over the last five years is that that is not true.

714. **Mr Gough:** There is some basis in fact for that. Payment for debts in the North is typically 30 days, whereas it is 60 to 90 days in the South. It is just a difference in culture.

715. **Mr Nellis:** InterTradeIreland's Chairman, Martin Naughton, who deals with the business community in the South, says of some of the

senior Dublin business community that their knuckles turn white when they pass Balbriggan. There are factors, and we are addressing them.

716. Any programme stands or falls on the demand for it. All our programmes are seriously oversubscribed, and we are much more selective now than we were at the outset. That is a very strong indicator. That is not to say that there are not inherent biases in some people's buying patterns. I have not done any analysis of that, but I have heard evidence from both sides.

717. Irish Breeze Limited, a Drogheda company that makes cosmetic products, said that found it difficult to penetrate the Northern market until its name was changed. I am responding to the question; it is an impressionistic response. We have done no detailed analysis, but it is something that we might consider.

718. I can give you any number of examples of collaboration and red tape. Exchequer money cannot flow from one jurisdiction to the other. We cannot get researchers to collaborate on R&D — there is a barrier there. We are trying to set up an all-island business angels network; people with a few quid, high-wealth individuals to help, support, mentor and invest in other businesses.

719. **Mr McNarry:** Would they take on redundant MLAs in November? *[Laughter.]*

720. **Mr Nellis:** If you have the wealth.

721. **Mr McNarry:** We would be looking for the money.

722. **Dr Farren:** We could invest any pay-off that we get.

723. **Mr Nellis:** One of the big issues is that, under financial regulations both North and South, we cannot set up an all-island network of business angels. There must be a Southern network and a Northern network.

724. **Mr McNarry:** Quite right too.

725. **Mr Nellis:** There are structural, statutory and regulatory impediments all along the way. We have been trying to address some of those issues with telecom providers. We have pressured them in respect of all-island tariffs



and roaming charges, and we have made progress on both those fronts.

726. That is not to say that there is not more to do. When we came on the scene, there was not one flight from Belfast to any other part of this island. We wrote a strong research paper that encouraged Aer Arann to try the Belfast to Cork route. That service now regularly runs at a load factor of 70%. There is now a flight service between Belfast and Galway.

727. People asked why we supported the Belfast to Cork route, when it was tried in 1972 by Dan-Air Services Ltd and did not work. However, we are now in a completely new dimension. Since peace has come our way over the last ten years, people are much more open to moving across the island. They do not have the same fears, and we need to capitalise on that changed mindset.

728. **Mr McNarry:** What about the buying?

729. **Mr Nellis:** Again, we have not done any detailed research. We are talking to the Chambers of Commerce, because they are seen as a neutral vehicle. However, we tend to subscribe to the school of thought that says that it is simply about finding the money to set up an all-island business brokerage service.

730. Many business professionals such as PricewaterhouseCoopers and Deloitte know of companies that want to sell, but they keep their arms around them because they are their own. We want to open up that market on an all-island basis and have genuine opportunities for people to find out what businesses are for sale and the surrounding issues.

731. Last week, I had a meeting with P Elliott & Co Ltd, property developers from County Cavan. The company is a big player and had a £400 million turnover last year. It has never done business in the North, yet the owner lives less than a mile from the border. He has now made the decision to open a Belfast office. We hear about that sort of thing more and more. A man with whom I play golf is the managing director of a Belfast printing company, which has bought a printing company in Dublin. There

is much more going on than what might first appear, but I do not have the detailed figures.

732. **Ms Ritchie:** Liam and Aidan, you are very welcome.

733. I would like to put on record my congratulations to InterTradeIreland for the work that it has done to break down the barriers between North/South trade and between thinking on the island of Ireland. I note that you commissioned the International Centre for Local and Regional Development, which has links with Harvard University, to undertake a joined-up study of spatial planning on the island. It not only examined problems in the border areas, but it examined problems on the entire island and how joined-up thinking could contribute to better economic regeneration and a better wealth economy for all. After all, we want to create a better way of life for everybody.

734. Does InterTradeIreland think that a collaborative approach on spatial planning, with all the economic opportunities that it presents, points the way to joined-up thinking on infrastructure?

735. What additional joined-up thinking on infrastructure is required? The Republic has Transport 21, but there is no evidence that we in the North are trying to dovetail with Transport 21 or to provide the required infrastructure to improve our roads and railways. Sectoral work has been done by Translink and Iarnród Éireann on the Belfast-Dublin railway, but I have not seen much further evidence of that.

736. How long do you think that it will take to implement the recommendations of that spatial planning collaborative approach?

737. **Mr Nellis:** The International Centre for Local and Regional Development is a collaboration of several universities on and off this island. It brings together the University of Ulster, the National University of Ireland at Maynooth and Harvard University. However, a key ingredient in developing that combined approach to thinking about spatial planning in an all-island context for the first time was the involvement of the Northern and Southern Environment Departments. That was a major



step forward, and the spatial planning professionals recognised that it made sense.

738. We will do whatever we can to encourage that as it moves forward. Since the findings were published, I have spoken at a couple of major conferences. There was a conference on infrastructure in Dundalk about six months ago at which David Gavaghan, Lord Rooker and Dermot Ahern spoke about the importance of closer co-operation on North/South infrastructure. Recently, I spoke at a conference in Omagh on infrastructure collaboration in the north-west. The National Roads Authority and the Department for Regional Development were talking the same language of collaboration.

2.15 pm

739. The principle has been accepted, but the political impetus that people such as you can bring to bear is required to make it happen and progress. Any work that we have been doing on this issue has been positive. The Enterprise rail service between Belfast and Dublin is supposed to be the flagship transport project on the island, but it pales into insignificance when one examines what is happening across the world. I go to Spain occasionally to play golf, and a 200-metre-high motorway has been built since I was last there six months ago; it takes us four and a half years to sort out the Westlink.

740. The Enterprise train is going downhill, so to speak. I have spoken to both Iarnród Éireann and Translink over the years, and I think they accept that. There was supposed to be significant investment from Brussels to speed up that track and provide new rolling stock; I do not see much evidence of it. I travel on it a lot because of my job, and quite often there is no coffee because no one has turned up to provide it.

741. **Mr McLaughlin:** Our trains do not turn up at all, and you are worried about coffee! *[Laughter.]*

742. **Ms Ritchie:** That gives us further food for thought. We could explore at a later stage how to push the transport organisations to plan in an all-island approach and maximise the contribution to the economy.

743. **Mr Gough:** To open up infrastructure is to open up new markets and new business opportunities. Liam mentioned air travel. Through our intervention and the research and reports that we wrote, there is now a direct flight between Belfast and Cork. That has a 70% load factor: business people travelling back and forth who would not previously have done so. I know that one company that has units in Belfast and Cork contemplated closing the Belfast unit because of travel difficulties before the flight was put on. Infrastructure opens business opportunities.

744. **Mr McLaughlin:** On page 4 you discuss the persistent wealth gap. I am interested in the statement that almost all progress made took place before 1997, a period that coincides with the negotiation of the Good Friday Agreement. What factors changed? Was it the haemorrhaging of manufacturing jobs, the increased profile of service jobs within employment? Are those the key determinants?

745. **Mr Nellis:** Can I talk to my economist colleague?

746. **Mr McLaughlin:** I will come back to it. It was an intriguing statement, because I would have thought that if we were making progress, it really should have been in the period after the Good Friday Agreement.

747. InterTradeIreland has been a success story, and one of its successes is that it is much less controversial across the local political spectrum in that it has demonstrated the benefits of collaboration and creating critical mass and maximising potential and opportunity. I want to thank you for that, first of all.

748. As regards your progress, has InterTrade-Ireland identified to both Governments additional areas of potential? To what extent do the current care and maintenance arrangements impede progress? That has significance for both the so-called “Plan A” and “Plan B” scenarios.

749. To what extent are current budgetary and resource levels a limiting factor to the work that InterTradeIreland could do?

750. **Mr Nellis:** I will leave the detailed point that came up until the end, as I need to consult.

751. We have been working closely with both Governments. Over the last few months we have done a major piece of work. There was a joint statement by the Secretary of State and Dermot Ahern after the British-Irish Intergovernmental Conference (BIIGC) to call on officials to be much more imaginative and challenging on how they take forward North/South economic collaboration. They asked for a review of the whole territory: what was, was not, and could be done.

752. We have been providing the secretariat for that piece of work for a number of months now. The final shape of the paper is beginning to emerge, and it contains some significant ideas. I do not want to go into the detail of those today, because involved in the discussions are OFMDFM, the Taoiseach's office, the Department for Foreign Affairs, DETI etc. All those partners are crafting the paper.

753. However, they are saying: "Let's not have any more taboos", and they are asking: "What is good for everyone?" Joined-up trade missions make sense, which was proven when, earlier this year, the Taoiseach offered Northern Ireland companies the chance to go to India. Invest Northern Ireland and the Northern Ireland firms thought that that was a tremendous opportunity. The two Governments are now considering further joined-up trade missions.

754. We also concentrated on R&D. Massive funds are available for that, but it is very difficult to move Exchequer money from one jurisdiction to another. Aidan, is the budget of the Science Foundation Ireland €6 billion?

755. **Mr Gough:** No. There is a total investment of €9 billion for research and development to back the new strategy that has been launched in the Republic. That sum is double previous budgets.

756. **Mr Nellis:** There is no reason why, with a bit of imagination, that investment should not be open to Northern Ireland companies. All it takes is some political involvement; it is not rocket science.

757. **Mr Gough:** Centres of excellence are crucial for science and technology. Will there

really be two world-class centres of excellence 60 miles apart? Universities and the Governments have opportunities to collaborate and create one genuine centre of excellence. Again, that requires more imaginative thinking about how funds cross borders.

758. **Mr Nellis:** The care and maintenance regime has now lasted for two and a half years, and we have just got on with it. Our remit was clearly set out before direct rule resumed in October 2003, and at that time we agreed a programme with Ministers. The two Governments approve our annual business plan. Since 2003 we have agreed our programme in writing through OFMDFM and the Department for Foreign Affairs in Dublin. That slows the process up a little, but it has not caused us much grief.

759. We have run into difficulty regarding the reappointment of board members. All organisations want a top-quality board, but they also want the board's membership to revolve sensibly so that everybody does not walk out the door one morning leaving no board the next. Current circumstances mean that no one has addressed the board membership of the cross-border bodies. As a result, all of our board members are likely to walk out in December. That is not a good way to run anything. Therefore some issues on the margins cause us concern.

760. However, we have remained focused on the business agenda. The remit that we have been given within the annexes of the legislation is quite broad, and all that we have been doing, from supply chain to equity, is included in that remit. Therefore the care and maintenance regime has not really got in the way.

761. As for budgetary and resource access, comments had been made that InterTradeIreland kept having to give back money because it could not spend it. I worked for the IDB until December 1999. In the middle of 1999 I was approached by Gerry Loughran, who was then head of the Civil Service. He said that there was talk about North/South bodies being set up under the Good Friday Agreement and that, if that happened, it would happen very quickly. He asked me whether I would be prepared to go out as interim chief executive to set up a trade body.

762. Since the suggestion was from Gerry Loughran, I knew that he was not asking me whether I was interested but rather telling me that I was the man. I went on holiday in December 1999 and came back to find that I had lost my nice office on the fifth floor of IDB House. I had an empty room across the road in Londonderry House. I had no staff and £9 million to spend. Obviously, I gave money back in the first, second and third years while we built the organisation in a very controlled way. We had to move from secondees at the start to recruiting our own employees. Over five years we built the organisation to a point at which our capacity is such that we are more than able to spend our budget in a sensible, coherent way.

763. We also have inescapable commitments that run through our programme from one year to the next. Of our budget of £9 million, probably £6.5 million to £7 million is programme money, and of that, probably more than half is committed before we start the year in rollovers from one- to two-year programmes. Our room at the margins for getting involved in programmes is narrow; we have to make hard choices. Either we stop doing some programmes or change their shape so that they do not cost so much — or we get more money.

764. Something has to give along the way. We are at our full staff complement of 42 and new things come at us all the time. There is the question of infrastructure and there has been talk of our getting involved in an approach to waste management. That is another big infrastructure issue that nobody is dealing with. Such issues are constantly coming up, and we must be much more selective about what we take on. In the early days, we had enough money to do everything that we wanted to, but those days have passed.

765. **Mr Ford:** Thank you for your presentation, which was positive, at least in some parts. You have good news to tell us. However, I want to return to some of the earlier parts of your submission — the bad news bits.

766. You highlighted the fact that in the first half of the nineties there was a significant increase in gross value added per capita compared to the

UK, yet gross value added per employee — productivity — is in long-term decline. I presume that that was simply because more people were got into what was possibly the wrong kind of employment. You also highlight service industries, retailing and call centres. Should we have learnt lessons from the way that the Republic developed its economy over a similar timescale? It appears that its definition of services was of higher-quality jobs than the services into which we put people.

767. **Mr Nellis:** You raise several issues. Much of the employment that was created was service-based, and, as you saw from some of the other analyses, such employment is often not well paid and therefore it creates less wealth in the local economy. However, we are where we are.

768. I worked in IDB in the 1990s and have been in the Civil Service for 34 years. The story was very different in Northern Ireland as regards going for mobile investment than it was in the South: we could not afford to be so choosy about the jobs that we brought in. The South could, through the Celtic tiger, be much more selective and could even say to companies that they would get nothing for coming to Dublin; that they had to go to the border regions. The Northern Ireland system could not begin to do that. We still need to build a base of top-quality mobile investment in the knowledge-based sectors. The playing field is slightly different.

769. Northern Ireland has come up significantly, but it still does not enjoy the selectivity that the South enjoys. I still do not think that a company will get money for coming to Dublin.

770. **Mr Ford:** If we are to build on the knowledge-based sectors, should we target foreign direct investment (FDI) or should we develop indigenous businesses? We have talked about both at different stages, but we have not worked out where we need to target the major effort.

*2.30 pm*

771. **Mr Nellis:** I am not an economist, but analysis that I have seen shows that both North and South must move away from being

investment-driven to being innovation-led. We need to grow our own.

772. **Mr Gough:** It is right to highlight the decline in productivity. If the performance of the economy is to change, it will have to be based on improvements in productivity. It is the key economic metric — I would usually defer to Dr Birnie on issues such as this — and has been identified by the Chancellor and by the Government in the South. Turning this decline around will require a host of factors. There is no one answer. To get capital investment right, you must identify the correct industries. It cannot be targeted at either FDI or indigenous; it must be directed at both because, as we have seen in the South, FDI can benefit growth in the indigenous sector.

773. There are many issues around driving up productivity, and our key message is that because the private sector in the North is so small, it lacks the critical mass to make a step change in performance. That is why we support the creation of networks, and not just with the South. With our remit, networks will be particularly important to the expansion of the resources that are available to the private sector in the North. Networks would help the private sector to grow and to make the necessary step change in economic performance.

774. **Mr Ford:** That leads to my other point. In your presentation, you said that the key points in partnerships concern softer issues rather than harder issues, such as fiscal matters, which we discussed for quite a while earlier. You referred to the areas for mutual collaborative action. A few minutes ago, you spoke about InterTradeIreland's budget. Short of recommending that your budget and staff numbers should be tripled, do you have any practical suggestions on how collaboration and networking could be developed? Is there a role for more specific encouragement for universities or the private sector? How do we handle it, or do we have to rely on you?

775. **Mr Nellis:** No. I like to believe that InterTradeIreland is at the forefront of this. Our corporate plan is in its second year and is based on all-island collaborative networks. Since then,

Enterprise Ireland and Invest Northern Ireland have published major policy papers that say that the answer is networks.

776. We are developing our range of networks; Invest Northern Ireland is involved in the development of some of its networks; and Enterprise Ireland is developing some of its networks. We are talking to both organisations, but it would make much more sense for all those who think that networks are a good thing to work together. We must move to that point and discuss the possibilities with our colleagues.

777. I thank Mr McLaughlin for the compliment that InterTradeIreland has, to some extent, proved its worth. From day one, it has been involved and has put its money where its mouth is. Everything it does is based on collaboration and partnership. The steering groups for each of its programmes include representatives from bodies such as Enterprise Ireland; Invest Northern Ireland; Forfás; the Irish Business Employers' Confederation; and the CBI.

778. InterTradeIreland brings people in and moves them along. It is not going to change the world; it consists of 42 people who are based in Newry and does not have the wherewithal to take on all the issues. However, InterTradeIreland is happy to help and facilitate other people. That is what it does best.

779. **Mr McLaughlin:** Would InterTradeIreland welcome the other organisations taking that concept and practicing it?

780. **Mr Nellis:** The fusion technology transfer programme is very costly. Why is InterTradeIreland taking the full hit on it? The consensus is that one of the critical elements of the development of an innovation-led economy, North and South, is technology transfer. How can technology be moved from universities to businesses? There is a perfect model, which has been proven to work. However, because of its budget, InterTradeIreland has had to be very selective about the number of projects that it puts on the fusion programme. Those are the sorts of things that must be considered.

781. **Dr Birnie:** I have three questions. First, does Northern Ireland continue to have a trade



deficit with the Republic? You said that Northern Ireland's exports south of the border are growing more rapidly than its imports. What is the explanation for that?

782. Secondly, in practice, to what extent are the authorities in Dublin committed to many of those issues? In 2003, the Department of Enterprise, Trade and Employment in the South commissioned an inquiry, and 'Ahead of the Curve: Ireland's Place in the Global Economy' was published in July 2004. That report is a business enterprise strategy for the Republic. It is over 100 pages long, and from memory, only two paragraphs deal with North/South linkages. I wondered why there was so little about that.

783. **Mr Nellis:** It deals with collaborative networks and infrastructure.

784. **Dr Birnie:** Thirdly, you list the areas for action at the end of your statement. Public procurement is not listed, but it might be important. After all, it generates billions of pounds both here and south of the border. To what extent is public procurement genuinely open to firms in either direction that bid for Government contracts?

785. **Mr Nellis:** I will take a lead on that and then let Aidan Gough come in.

786. These figures, which were compiled in our office, are hot off the press, and you are welcome to a copy of them. Cross-border trade in manufacturing from North to South in 2004 was €933 million; from South to North it was €1,125 million. The total was just over €2 billion. That grew a little in 2005 when it was €1,013 million North to South and €1,158 million South to North. However, the percentage change was 8.55% for North to South and 2.88% for South to North. At the moment, Northern Ireland is benefiting more from the trade relationship.

787. On the question of commitment, our organisation often has to walk on eggshells in many areas. When we came into this territory five or six years ago, there were many turf issues that were not political but territorial. People were asking who we were, what our job was, and similar questions. We can lobby and

push and talk, but we have no sanction. You referred to Eoin O'Driscoll's report, 'Ahead of the Curve', and Aidan Gough and I were blue in the face when we were in consultation. We spent a full afternoon with Eoin O'Driscoll and his senior team. We met him several times, and we talked to the Department that was signing off the final report. Sometimes I think that the Department was not sure that there should not have been a much greater emphasis.

788. I do not think that that lack of co-ordination is in any way deliberate. Today I have sat through two presentations by senior business organisations in Northern Ireland. Perhaps I missed it, but there was little talk of North/South collaboration, or perhaps it is not their job to consider co-operation. It is certainly my job, and I have to examine it. Therefore, one has to remind people constantly, North and South, that there is a mutual benefit with collaboration. Sometimes the North falls down a bit, sometimes the South falls down a bit, and nobody is a paragon.

789. Early on, we identified the fact that public procurement was a big issue for us. There is a €13 billion spend on public procurement on this island, North/South and South/North. We have addressed that in a number of ways. We have the 'Go Tender' initiative, which brings in 14 or 15 small and medium-sized enterprises (SMEs) from one jurisdiction and trains them on how to pitch into the other jurisdiction. It tells them about all the pitfalls and issues that are involved.

790. Procurement in the North and South operate quite differently: in the North, the central procurement directorate co-ordinates procurement, whereas in the South most utilities handle their own.

791. There are some tremendously successful examples. I do not want to break a confidence, but there is a company around south Derry, broadly involved in the Health Service, that had never done business in the South. Within months of learning how to tender in the South, it won a contract for nearly €1 million from the health service there — simply by opening its eyes to the opportunity.



792. To answer your question, Esmond, there is not as much openness and transparency from North to South as from South to North, but much of that is down to the fact that people do not even bother looking to the South.

793. InterTradeIreland has now moved away from granting trade and business awards. However, one of the companies that won an award was John Graham (Dromore) Ltd, a construction company that, until 10 years ago, had done little or no business in the South. Colin Graham, who is the third generation of the family, came out of university going to kill dead things. He started tramping the corridors around Dublin, and within a very short time, the company had constructed the Dunleer-Dundalk bypass and rebuilt Connolly station. The company is currently building the Department of Education headquarters in Dublin. The share of its business coming from the South grew from something like 2% to 40% within five years.

794. No one will hand business to companies, but if they look, it is possible to find it.

795. **Dr Farren:** My first question relates to the walking-on-eggshells image that you invoked a moment ago, Liam. Someone looking from without would say that Enterprise Ireland, the Industrial Development Agency, Invest Northern Ireland and InterTradeIreland are all similarly involved in growing business. I join Mitchel in complimenting InterTradeIreland, and I recall the early days when I enjoyed the privilege of holding a ministerial position and attended meetings at which the Fusion scheme, Acumen programme, etc, were being conceived.

796. In the light of your experience, is InterTradeIreland dovetailing satisfactorily with the other agencies? When it is said that InterTradeIreland must finance or provide other forms of support for any North/South business and that that is not a matter for INI or Enterprise Ireland or whatever, are you working on protocols to address satisfactorily the needs of those in business, so that if a company approaches one agency that cannot help, it will be pointed in the direction of another?

797. If I picked you up correctly, was there a sense of resentment that your budget was being

pointed to as the source of finance when you thought that other budgets should also be contributing in particular circumstances? Looking at this strategically, how do we, as taxpayers, ensure that we get the best bang for our buck from the work of the different agencies?

798. It has been claimed that operating costs in the North are significantly higher in some respects. However, I get the impression that, leaving aside taxation, a number of operating costs in the South are rocketing, not least labour costs, property taxes and transport — notwithstanding the low fuel prices that Irish commuters pay.

799. Are you able to make sense of the different operating costs in a way that gives advantage, or would show people that there will be advantages by doing business in the North as opposed to the South, or in the South as opposed to the North?

*2.45 pm*

800. **The Chairman (Mr Molloy):** We do not have a quorum and have to close the meeting. Perhaps Mr Nellis will reply to that in writing.

801. **The Committee Clerk:** The next meeting will be on Thursday at the same time. I have drafted a press release. It is totally non-controversial: it simply states that we took evidence from various groups.

802. **The Chairman (Mr Molloy):** Thank you for coming along, Mr Nellis. I apologise for the sudden end.

*Adjourned at 2.46 pm.*

## Thursday 27 July 2006

### Members:

The Chairman, Mr Jim Wells  
Mr Roy Beggs  
Ms Michelle Gildernew  
Dr Alasdair McDonnell  
Mr Mitchel McLaughlin  
Mr David McNarry  
Lord Morrow  
Mr Sean Neeson  
Ms Margaret Ritchie  
Mr David Simpson

### Witnesses:

Mr David Gavaghan	} Strategic Investment Board
Mr Martin Spollen	
Mr Damian McAuley	} Invest Northern Ireland
Mr Leslie Morrison	

*The subgroup met at 10.04 am.*

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

803. **The Chairman (Mr Wells):** Ladies and gentlemen, we shall proceed. Mr Ford will not be here, but he is happy for us to proceed in his absence. Mr Neeson may attend — I am sorry; he is here already. I am so used to the Alliance Party being at the top of the table in the Committee on the Preparation for Government. We have received apologies from Dr Birnie, for whom Mr Roy Beggs is deputising. Ian Paisley Jnr and Peter Weir are not here, but Mr Simpson and Lord Morrow are very able substitutes.

804. Apart from Mr Ford, who will not be here, are there any other apologies? Is Dr McDonnell expected?

805. **Ms Ritchie:** He is probably looking after four babies at the moment.

806. **Mr McLaughlin:** He is a busy man.

807. **The Chairman (Mr Wells):** There are no other apologies.

808. On a serious note, at the last meeting we recorded the sad death of Cathie White's mother.

I must report that, very sadly, within a few days her father died. Cathie is going through an extremely difficult time. We suspect that because of this very sad situation Cathie may not be with us for some time. Members had already signed a condolence card for her mother. I want to tell members of the Committee that the funeral of Cathie's father is at 9.30 am on Saturday at Roselawn, in case any members are available to attend.

809. I wish to report one issue that arose from the Committee on the Preparation for Government. The Committee decided that the Subgroup on the Economic Challenges facing Northern Ireland would have five Chairmen, including Mr Molloy and me and will inform the Secretary of State that there will also be Chairmen from the Ulster Unionist Party, the SDLP and the Alliance Party. The Secretary of State will contact those parties shortly to seek nominations. Therefore the subgroup's meetings will have a rotating chairmanship and I will be chairing only one meeting in five. The Preparation for Government (PFG) Committee will meet more regularly and Mr Molloy and I will be spending every Monday, Wednesday and Friday chairing the extra meetings.

810. I hope that members have seen the draft minutes of the meeting of 25 July that were circulated in their packs. Do members wish to make additions or corrections?

811. **Mr Simpson:** Is it in order that, under item 4, "Declaration of interests", I declare business interests?

812. **The Chairman (Mr Wells):** Yes. You raise an important point, Mr Simpson. This will be a moveable feast, as members deputise for one another on the subgroup. The nature of the subgroup means that members who have business interests should declare them. Can you inform the Committee Clerk of those interests?

813. **Mr Simpson:** Yes, of course.

814. **The Committee Clerk:** The standard practice is for a member to declare business interests at a Committee meeting.

815. **Mr Simpson:** They are general business interests; perhaps I can deal with them afterwards.

816. **The Committee Clerk:** That is fine.

817. **The Chairman (Mr Wells):** Do members who were not at the previous meeting have any pecuniary interests to declare?

818. I must remind members of the vexed issue of mobile phones, although this is a case of the cat calling the kettle black — we are all wedded to our mobile phones. However, mobile phones cause great problems for Hansard; even switching one on causes problems in the recording. I texted the hon Member for East Londonderry in Westminster the other day and he texted me back. Even in higher places, Members are wedded to their mobile phones.

819. We are no different. Unfortunately, I am going to have to ask members to switch off their mobile phones because we will be taking evidence. At the PFG Committee the compromise is that members can set their phones well back from the microphones so that they do not interfere with recording, but they can still receive messages. However, in this room the Hansard folk are most insistent that the phones be turned off completely.

820. **Mr McNarry:** Chairman, I would like to raise a separate issue, which I mentioned at the PFG Committee yesterday. Although I welcome the initiative that the Secretary of State has shown in setting up a group to deal with industrial rating — or, hopefully, derating — the news came as quite a surprise. It would be appropriate if the Secretary of State were to notify us of his intentions in advance; he might well be working on other schemes with other groups. In this instance, we would particularly like to hear from the industrial derating group. Yesterday the PFG Committee generally supported my view that we should know whether issues outside the scope of this subgroup were being explored. Does the subgroup support the view that we should find out from the Secretary of State if he is on any “Lone Ranger” missions

with other people, perhaps telling them things that he is not divulging to us?

821. **The Chairman (Mr Wells):** Are members content that we write to the Secretary of State seeking advance notice of any initiative that might cut across what we are doing?

822. **Mr McNarry:** I think we should.

823. **The Chairman (Mr Wells):** There was unanimity on this at the PFG Committee yesterday. Is that agreed?

*Members indicated assent.*

824. **The Chairman (Mr Wells):** The Clerk will look after that.

825. Members have received the draft Hansard report of the hearings on 25 July. As you know, the turnaround is now 24 hours. The Clerks did not receive any amendments and corrections, so it is taken that members are content with the proceedings. The report will then be published.

826. **Mr McNarry:** I did not receive a report, and I was told to expect it today. Perhaps it is in this pack?

827. **The Committee Clerk:** The report is of the meeting on 20 July, not of the last meeting.

828. **The Chairman (Mr Wells):** Did I say 25 July? I meant 20 July, sorry.

829. **The Committee Clerk:** That was handed out to Members at the last meeting.

830. **Mr McNarry:** The meeting on 20 July? I have received that.

831. **Lord Morrow:** Mr Deputy Speaker, on a similar issue, we seem to have a system in place whereby minutes, marked with members' names, are being left in parties' general offices for members to pick up. That is most unsatisfactory. I am not saying that it has happened here, but I hope that it does not start to happen because members are not getting minutes until 10 minutes before they arrive for the meeting.

832. **The Committee Clerk:** The subgroup is working to a very quick turnaround, and we only receive evidence papers and submissions the evening before, if at all. We are pressing witnesses to send them quicker than that, but we

must appreciate the difficulties that arise when witnesses are contacted at such short notice.

833. It would be helpful if members could give us an e-mail address that they are certain they can access the night before the meeting, to which we can send the relevant papers. We tried to contact quite a few members last night, by e-mail and mobile phone, in an attempt to send the papers out last night. Could members ensure that they give Paul Stitt their e-mail addresses before leaving today? As soon as we get any papers we will send them out. We will also have a hard copy ready when you arrive at the meeting.

834. **Mr McNarry:** Excuse me, Chairman, I am going back to Hansard. Where is the report?

835. **The Chairman (Mr Wells):** You should have the report of 20 July; the report of 25 July is in preparation.

836. **The Committee Clerk:** I understand that the report of 25 July is virtually done. It was a four-hour session, so I appreciate that it is going to take Hansard a day or two to complete it, and we are waiting on that.

837. **Mr McNarry:** I do not want to be hard on anybody, but I am not really satisfied with Hansard's performance on these matters. It is impossible.

838. **The Chairman (Mr Wells):** To be fair to Hansard, you must realise that it is covering the meetings of the PFG Committee as well.

839. **Mr McNarry:** Hansard is here to serve this Assembly. If the Assembly were in operation, it would not tolerate such a delay.

840. **The Chairman (Mr Wells):** I should advise you that the Hansard staff has been run down substantially during the three years that we have not had devolution, so it is not in a position to give a full-time service.

841. MLAs do not answer their phones 24 hours a day, and various attempts were made to ring members on their mobiles last night, and to e-mail papers to their home email addresses. Margaret was the only member on 24-hour duty.

842. **Ms Ritchie:** It is very sad.

843. **The Chairman (Mr Wells):** We need to have a means of contacting members by mobile telephone or of e-mailing documents to you at home so that you can access them that night. The timetable for this subgroup is so tight that we must give you material at short notice. That is the nature of the beast. My mobile is on 24 hours a day.

844. **Mr McNarry:** I understand that, Chairman, but that is a separate issue. I got a telephone call at 7.00 pm or 6.50 pm, which was good, for at least someone was working. However, I am talking about Hansard.

845. **Lord Morrow:** Even if you are not, David. *[Laughter.]*

846. **Mr McNarry:** I could not really watch the football.

847. **The Committee Clerk:** Hansard would appreciate it if the subgroup were to lend weight to calls for additional resources for it. Many Hansard staff were redeployed and those who remain are working flat out. We are pressing them, but we appreciate their difficulties. However, Mr McNarry made a useful point.

848. **Mr McNarry:** The PFG Committee decided yesterday to have three more meetings that Hansard will record in addition to this. That makes four separate meetings each week to keep up the pace. Minutes are minutes and that is that.

*10.15 am*

849. **The Chairman (Mr Wells):** Mr Burrowes would appreciate additional staff, but he could not have predicted this workload — there will be meetings every day from now on. The PFG Committee meets on Monday, Wednesday and Friday; the economic challenges subgroup meets on Tuesday and Thursday. That has cranked up the work required of Hansard, and I am sure that the Committee Clerk would be happy to write to the Clerk of the Northern Ireland Assembly to ask whether he can deploy more staff to Hansard. Parliamentary reporting is specialist work; you cannot simply drag people off the streets to do it.



850. **Mr McNarry:** I understand that. It is because it is specialist that it is so important. I have said all that I need to say.

851. **The Chairman (Mr Wells):** I welcome Dr McDonnell.

852. Members will receive the Hansard report of 25 July shortly.

853. As to matters arising, the subgroup wrote to the Economic Development Forum, asking it to give evidence. Initially the forum indicated that, since it had multiple membership, many of those groups would be giving evidence in their own right, so it wished not to give evidence. We have written to the forum again to prevail upon it, and I understand from the Committee Clerk that we may receive a favourable response this time.

854. **The Committee Clerk:** I spoke to officials yesterday and was informed that the Economic Development Forum will now be more inclined to give evidence. However, it is a disparate group and does not necessarily speak with one voice.

855. The issue is timing. We have filled up all the slots between now and 10 August. An evidence session with the forum would be on the agenda, but the PFG Committee has agreed that the subgroup can make an interim report and, subject to approval from the PFG Committee, could work beyond 18 August. Since the Minister is not available until September anyway, we could, if we agree to work beyond 18 August and produce an interim report, invite the Economic Development Forum and the Minister in early September.

856. I have drafted a letter for consideration; it is in the members' pack at tab 2. We do not have a slot for the forum, unless the subgroup want to meet on another day. The forum would have to pull together different chairpersons. We are seeing them as individuals anyway; but if the subgroup is of a mind to see the forum, I am sure that it will agree. However, it would be late August at the earliest. As the Minister is also the Chairperson of the forum, it might be sensible to invite her, both as Minister of the three Departments to which you want to speak

and as Chairperson of the Economic Development Forum.

857. **Mr McNarry:** I would like clarification. Meeting number five is with the Department of Education followed by the Department for Employment and Learning. Will a Minister be attending?

858. **The Committee Clerk:** The Minister is Maria Eagle MP. She is on leave until September, so she will not be available at that stage, but she will be available and willing to attend when she returns from leave.

859. **Mr McNarry:** She is on leave.

860. **The Chairman (Mr Wells):** Yes, for all of August.

861. **Mr McNarry:** This is a direct rule Minister.

862. **The Chairman (Mr Wells):** All MPs are on leave until the end of August.

863. **Mr McNarry:** Brilliant. But we are not on leave.

864. **Ms Gildernew:** Not all MPs are on leave.

865. **Dr McDonnell:** There is a message there.

866. **Mr McNarry:** We are not on leave. We have been charged by the Secretary of State to get this work done, and we want to hear from one of his direct rule Ministers. Does that mean that she is relieved of duty office? Who is the duty Minister?

867. **The Chairman (Mr Wells):** There will, of course, be a duty Minister throughout that time, but Ms Eagle will be on holiday. She will not be here. She is not available. You will soon realise that only MLAs work in August.

868. **Mr McNarry:** Well perhaps the world should know that.

869. **Dr McDonnell:** It could be worse, Mr Chairman. Margaret Beckett is monitoring the war in the Middle East from a caravan.

870. **The Chairman (Mr Wells):** And John Prescott is in charge of the country. *[Laughter.]*

871. **Dr McDonnell:** Margaret Beckett was interviewed last night in a caravan somewhere in the south of France.



872. **Mr McNarry:** It seems too convenient that this is the excuse.

873. **The Chairman (Mr Wells):** We do not have the power to summon her. If she is not available there is nothing we can do.

874. **Mr McNarry:** Where does that leave us? We have a duty to report back to the PFG Committee. The Secretary of State has set a date for the submission of a report, but it will be incomplete because we have been unable to have a Minister here. At the first meeting, it was everybody's view that we would leave the Ministers to the end so that we could hear all the evidence. Ian Paisley Jnr made the point that we could then put to the Ministers what we had gleaned from witnesses, ask the Minister what he or she made of it, and see whether there were any new ideas that we could put to the Minister.

875. **The Chairman (Mr Wells):** The permanent secretary, who is the spokesman for the Department, will be available. The Department will therefore be present in strength, as it were, in the hearings.

876. **Mr Beggs:** Has it been confirmed that it would be the permanent secretary at least who would give initial evidence from the Department, and not a deputy? The permanent secretaries are also on leave.

877. **The Committee Clerk:** The letters of invitation for each Department are going to the permanent secretaries. Generally they would send whoever is best placed to answer the subgroup's questions. If the subgroup would like the permanent secretaries specifically to attend, we can make that point.

878. **Lord Morrow:** We should include this letter along with the one that we are sending to the Secretary of State. We have been told that the Secretary of State has a service in place for the subgroup while his Ministers are on holiday. Has he made arrangements for deputies? Perhaps he himself would condescend to appear?

879. **Mr Neeson:** He is down in Sligo.

880. **Lord Morrow:** Well, he can fly back up on his chartered plane.

881. **Mr Neeson:** He is rallying somewhere.

882. **Mr McLaughlin:** There is a constant dissatisfaction in dealing with direct rule Ministers anyway, because they tend to fly in for limited times, and depend heavily on briefings. If we pressed the point, we might well get a duty Minister, which would not improve the quality of evidence that we would have to consider. We should record our dissatisfaction with the amount of support given at ministerial level to the work of the subgroup. However, we should proceed nevertheless and ensure that we get the best possible advice from the senior civil service.

883. **Ms Ritchie:** The Secretary of State charged us with a programme of work over the "summer holiday" period. Like Mr McNarry, I fail to understand how the Secretary of State expects us to work and take evidence on economic challenges if his Ministers cannot be made available.

884. He has created obstacles, yet he has levelled that accusation at our door. Members must record their dissatisfaction with the process, particularly when we have a deadline of 18 August, and the Minister will not be available until after that date. That is unsatisfactory, and a permanent secretary or someone deputising for a permanent secretary is insufficient, because they simply implement the policy decisions of Government.

885. **Mr McNarry:** Cathie White reported to the subgroup that she had diligently made preparations for meetings in advance of our first meeting, and that was useful. She produced a work programme, in which dates were given for the Ministers to attend. Do I assume, therefore, that she had already contacted the Ministers' office and they were available on that date? If so, perhaps we could reconsider that date if it is the only opportunity for a Minister to attend.

886. Members revised that date, because Ian Paisley Jnr suggested that the subgroup should meet the Minister after we had heard all the evidence from witnesses. It seems as though there is some type of engineering going on, and a Minister will only be available when the subgroup is not meeting.

887. **Ms Gildernew:** I do not have the original work programme at hand, but my understanding

is that the dates given were for this week, which suggests that the Ministers may have been available this week. However, they may have made plans to go on holiday, and that is why they were only available for Tuesday's meeting. The subgroup had decided that we would wait until the end of all the evidence sessions before meeting the Ministers.

888. **Mr McNarry:** Michelle may be right, but it is unfortunate that it was not understood that the Minister was only available this week.

889. **The Committee Clerk:** That is my understanding, following conversations with officials in the past couple of days.

890. **Mr Simpson:** Is it a case of requesting that a duty Minister attend the meetings to cover for other Ministers? If the duty Minister needs to bring officials from the relevant Departments, that is fine. Surely a duty Minister would cover this meeting if they were covering other duties.

891. **The Chairman (Mr Wells):** It could be a Minister for security or education who may not know anything about the subject and who may simply say that they will refer it to the relevant Minister or Department.

892. **Mr Simpson:** The same will probably apply to the permanent secretary.

893. **Dr McDonnell:** We should get on with the business and ask for the Minister to attend as soon as she returns, even if that entails delaying the report by a few days.

894. **Mr Simpson:** Does the member wish to delay the report until after 24 August?

895. **Dr McDonnell:** If necessary.

896. **The Chairman (Mr Wells):** Do members agree that we write to the Secretary of State indicating our displeasure with the way in which we are being treated in this respect?

897. **Mr Beggs:** Members cannot express their displeasure, as they changed the date that had been agreed, and Ministers will have agreed a schedule to take time off. We ought to request an alternative date as soon as they return.

898. **The Chairman (Mr Wells):** Are members happy with that?

*Members indicated assent.*

899. **The Chairman (Mr Wells):** Members have received a revised work programme of suggestions for witnesses. The letters for the evidence session on 7 August are ready for signature, and, yesterday, I signed letters to those witnesses whom we previously agreed. Does anyone have any comments?

*10.30 am*

900. **Dr McDonnell:** Who will be attending on 8 August?

901. **The Chairman (Mr Wells):** We keep updating the work plan.

902. **The Committee Clerk:** Sir George Quigley will represent the Industrial Task Force.

903. **The Chairman (Mr Wells):** I signed a letter to him yesterday.

904. **The Committee Clerk:** We got the Chairman to sign the letters for next week to get that secured. The following week's schedule has been secured, but we wanted to give members some flexibility in case it needed to be changed. The list is on the updated work plan. The letters are ready for the Chairman's signature at the end of the meeting. If members are content, we will carry on with that.

905. We also have letters ready for the Chairman's signature for those who will provide oral evidence, and they will also be sent out today. We will proceed with the programme and the witness sessions if members are content.

906. We could not involve everyone because there are not enough slots. At the last meeting we agreed on 15 or 16 oral evidence sessions. To get more in we have had four on one or two occasions, and we may restrict that to 45 minutes if members are content — otherwise we would be sitting for hours.

907. If the subgroup works beyond 18 August it would be able to invite the Minister, the forum and perhaps some additional witnesses.

908. **Mr McLaughlin:** Could we adjourn the Tuesday meeting to the Thursday meeting so that we could go straight into the evidence sessions on Thursday? We spend half an hour or

three quarters of an hour reviewing the minutes. We could have one set of minutes for that week and simply adjourn the earlier meeting, and that would give us extra time.

909. **The Chairman (Mr Wells):** Do members have a view on that?

910. **Dr McDonnell:** I agree with Mitchel McLaughlin. We should concentrate as much as possible on obtaining evidence.

911. **The Committee Clerk:** Mr Chairman, the subgroup will still have to go through the minutes of proceedings, but it depends on how quickly that can be done. It could be done in five minutes or it could take half an hour. If it is done in five minutes, the subgroup could go straight into the evidence session. There will be one or two items of business arising from the previous meeting that will have to be dealt with.

912. **The Chairman (Mr Wells):** Is everyone happy?

*Members indicated assent.*

913. **The Chairman (Mr Wells):** I take it that we are happy with the programme that has been laid out. We have a good mixture of private and public sector witnesses, and after hearing their evidence we should have a fair idea of the challenges that we face.

914. We will now move to the evidence session. There will be an opportunity at the end of the meeting to bring together any issues that arise. I must leave the meeting at 1.00 pm. I see that Mr Molloy is not in his usual position, so you will have no Chairman after 1.00 pm. However, I hope that we can get through the two sessions before then.

915. **Lord Morrow:** Is that a threat or a promise?

916. **The Chairman (Mr Wells):** It is probably a promise, but I have a delayed tribunal that I cannot get out of.

917. **Dr McDonnell:** If we cannot get the business done by 1.00 pm, we should not be here. Through no fault of my own I have missed a couple of meetings, but Chairman, how do I manage to restrain the Lord Morrow? He has lost the run of himself since he was ennobled.

918. **The Chairman (Mr Wells):** He is controlled.

919. **Dr McDonnell:** It would be useful to have even a brief session on the new technology, as it has a cutting edge for the economy and may be a specific niche or sector. That is a suggestion, not a demand. An opportunity may arise or a slot may be cancelled.

920. **The Chairman (Mr Wells):** Dr McDonnell raised this at the PFG Committee, and I remember promising him that if I were in the Chair I would allow the matter to be raised. Have we any slots, or is there any way that we can fit that in?

921. **The Committee Clerk:** That depends on how long you want to meet for. If the subgroup wants to have longer meetings or to meet for an additional day, Committee staff can fit in anyone. Agreeing to meet beyond 18 August would give you many more opportunities.

922. **Dr McDonnell:** It may be useful for people such as Hugh Cormican, Bro McFerran and Brian Keating to give us a short briefing, for half an hour or so, on new technology because that is where the future of our economy lies. I have no difficulty with a good deal of what we are due to hear, but much of it is from a managerial, theoretical or philosophical perspective. I want to hear from someone who has been part of the economic revolution in the last 10 years. I leave that as a suggestion, not a demand.

923. **Ms Gildernew:** I am disappointed. I had not realised that the Northern Ireland Council for Voluntary Action (NICVA) had slipped off the work programme. It was on the first and a number of subsequent work programmes, but I wonder why I do not see it now.

924. **The Committee Clerk:** It is simply a matter of there being insufficient slots for the amount of witnesses. We have held off writing letters to the witnesses required for the last week so that things can be changed around. I want to leave the subgroup with that flexibility.

925. **Ms Gildernew:** Given the work that NICVA does, the extent to which our economy greatly affects the voluntary and community sectors and the amount of employment within

those sectors across the North, it is important that NICVA be retained to give evidence to this Committee.

926. **The Chairman (Mr Wells):** It seems clear that as the evidence proceeds, we may have to create one additional session to bring in one or two more bodies. Is it worth setting aside one day for Alasdair's high-tech representatives, NICVA and anyone else whom we feel is appropriate?

927. **Mr Beggs:** We must prioritise whom we bring in under this heading. The enterprise agencies are not represented here. Will someone explain how NICVA is a priority?

928. **The Chairman (Mr Wells):** You are talking about the social economy, and NICVA represents thousands of employees.

929. **Mr Beggs:** Many different organisations represent thousands of employees. We have to prioritise.

930. **Mr Simpson:** We must draw a line somewhere.

931. **The Committee Clerk:** There are two options. At the moment most slots are scheduled to last for one hour. By reducing those to 45 minutes, you could hear from four witnesses at every session and certainly fit in a witness from a high-tech company and from NICVA into the meetings that are currently scheduled. Alternatively, you could schedule another meeting or meet for longer. That is entirely your choice.

932. **Lord Morrow:** That would not solve the problem, because once you open the door to bring in NICVA, about 25 others must be brought in.

933. **The Committee Clerk:** In addition, substitute subgroup members have legitimate reasons for inviting different people, and that presents a difficulty. The subgroup must hear from all witnesses by 18 August. That is why we went ahead and selected some witnesses from your original agreed bunch. However, there is still flexibility and we will certainly accommodate any further witnesses, but that must be decided now.

934. **Ms Gildernew:** I reiterate that I strongly desire that the social economy be represented. It is hugely important, given its past and present work. If we are talking about numbers of employees, it employs more people than Wrightbus Ltd, for example. It was agreed that Wrightbus Ltd should appear on the work programme as a representative of entrepreneurship. However, surely NICVA is equally, if not more, relevant to the work of this Committee than one particular company.

935. **The Chairman (Mr Wells):** I will take that as a formal proposal from Ms Gildernew. Do you second that, Mr Beggs?

936. **Mr Beggs:** No, I am simply saying that Enterprise Northern Ireland, which represents all the enterprise agencies and is responsible for delivering support to the social economy, is a more appropriate witness for this Committee. That is my counter-proposal.

937. **Dr McDonnell:** Can we allow 45 minutes for each of them and try to work cohesively as best we can? I am happy to meet for an extra hour at some stage to accommodate additional witnesses, because we have different priorities and preferences. I take the point about opening the door, but all these people are players, and we must at least let them through the door and give them an opportunity.

938. **Lord Morrow:** The most important words that Alasdair used were "all players". Are we talking about all the players or just some of them?

939. **Mr McNarry:** Perhaps the Ulster Unionists who are here are at fault — Roy and I did not discuss this, but we should have. The subgroup is going back on decisions that it has already made. We agreed that there had to be a cut-off point. We also said that witnesses could make written submissions. I do not know whether we have requested those submissions yet, but that provision was included to cater for the general "all".

940. If the consensus — or the majority vote, as it would be — is that we had to invite those groups, I am content.



941. **The Chairman (Mr Wells):** It is worth pointing out that NICVA were on the original list —

942. **Mr McNarry:** I have no dispute with that.

943. **The Chairman (Mr Wells):** That is why it has been raised. I take Mr Beggs's point, but the local agencies were not on the original list for consideration. However, I can see why you would want to have them there.

944. **Mr Neeson:** This is not the Assembly Enterprise, Trade and Investment (ETI) Committee. If that Committee were in operation, all players would be taken on board. We must be realistic and recognise our remit and timescale.

945. **The Chairman (Mr Wells):** I propose that we invite NICVA for a session. This subgroup operates by majority vote, not by consensus. I suggest that we have a wash-up day to bring in those groups that others feel should be here. What is the view on inviting NICVA?

946. Four members are in favour of inviting NICVA, and two are against. The vote is per party, so that is two parties to one, with the Alliance Party abstaining.

*Members indicated assent.*

947. **The Chairman (Mr Wells):** We will invite NICVA.

948. **Ms Ritchie:** I am happy to second Mr Beggs's proposal. Last week when I suggested that we bring some groups to evidence sessions, I was promptly chided for recommending those extra witnesses in light of the time-limited agenda and the need to prioritise work. If I had realised that there would be a change in direction, I would have made the same point as Mr Beggs about the enterprise agencies. I suggest that either we be strict with ourselves, or we examine closely our terms of reference.

949. **The Chairman (Mr Wells):** The proposal is to invite local enterprise agencies to give evidence.

950. Three parties are in favour; none are against.

*Members indicated assent.*

951. **The Chairman (Mr Wells):** We will invite them and schedule their sessions into the programme.

952. We have kept our witnesses from the Strategic Investment Board (SIB) waiting. As we gather up our papers, I remind members to ask questions rather than make statements. Although some of what has already appeared will look wonderful in the local press, we are here to elicit information, not to state party policies. I will be quite strict, and you will not get away with saying: "Is it not the case that — ?" and then making a statement.

953. Mr Gavaghan — I have not come across that name before — and Mr Spollen, thank you for coming to represent SIB. We appreciate your attending at short notice and supplying material in advance.

*10.45 am*

954. Gentlemen, you are very welcome. The Clerk has indicated that we would like you to make some opening comments, and then the members will ask questions. We have an hour, so feel free.

955. **Mr David Gavaghan (Strategic Investment Board):** Thank you very much for giving us the opportunity to make a brief presentation and take questions.

956. I propose to run briefly through our presentation. We recognise that from the subgroup's perspective there are three areas of focus. The Strategic Investment Board's focus, as you are aware, is on infrastructure investment, so our presentation is specifically on that. I do not apologise for that, because that is what I am employed to do, but it is worth emphasising that that is why our presentation is as it is.

957. In the overall context, the first question that we all pose about infrastructure in Northern Ireland is this: is it fit for the twenty-first century? To some extent the word "fit" can be taken to mean fit for purpose. I see it slightly differently: if, like me, you struggle to keep fit, often the achievement is in getting fit; keeping fit is another matter. We have a huge challenge with this economy in the twenty-first century. Recently, I have been reading 'The World is

Flat', and that has reminded me of the extent and significance of the challenges across the globe in the context of Northern Ireland.

958. As you know, our company was established just over three years ago to help address the infrastructure deficit that exists here. We have three specific remits. The first is to draw together a 10-year investment strategy, which was announced by the Secretary of State last December. We drew that together as a first, and we will give evidence during the course of the morning of some of the work that we want to do in the future. There is one point that I would like to emphasise: it is not the SIB's investment strategy; it is the Minister's investment strategy, and it is ministerial direction that has determined that strategy.

959. Our second area of activity is the delivery of projects and programmes of investment, and, if you like, that is the lifeblood of the business activity of our company. I will give you an insight into some of the work that we have undertaken in the past three years in that area.

960. The third area is reform, which at the moment is very prevalent in the context of Northern Ireland, and some examples of reform projects include e-HR, Workplace 2010, the corporatisation of the Water Service, as well as simple things like standardising contracts and improving professionalism across the Northern Ireland Civil Service as regards delivery capability.

961. As you all know the investment strategy gives a 10-year view, but what is quite wonderful in the strategy is the extent to which a new step change was visible within the public sector and, more importantly, outside it. The scale of ambition of the 10-year strategy, which has the potential to invest some £16 billion in Northern Ireland's infrastructure, was a step change for us all. One of the things that is worth emphasising is that in the past year, the first year of the investment strategy, more than £1 billion was invested in Northern Ireland's infrastructure. So it is happening right here and now.

962. The graph in the slide entitled 'Key Investment Programmes', shows the confirmed figures in deep purple and the indicative figures in lighter purple. The key point in showing you

this graph is to highlight that the focus of the investment programme is on education, health, transport and the environment. Those are ministerial decisions, and there is a real recognition that those are the same priorities that the devolved Government had set prior to direct-rule Ministers taking over.

963. The direction of the infrastructure and investment programme remains broadly the same.

964. The next slide is crucial because it shows the role that infrastructure plays in the sustainable competitiveness of the economy. Physical infrastructure is only part of the equation in the creation of a sustainable economy. Some European countries have the best infrastructures in the world, but the use of those infrastructures is absolutely critical in defining outcomes.

965. The key issue is the way in which all those elements in the pyramid are synchronised as effectively as possible, the intention being that sustainable enterprise will be the apex, which in Northern Ireland means business and social enterprise.

966. We are undertaking some work to try to couch the second investment strategy in a slightly more thorough context than the first. We are addressing the infrastructure investment in five investment pillars built around networks such as roads, IT, broadband etc. The skills pillar includes primary, secondary and tertiary education, the social pillar includes health and housing, the environment pillar includes water-related issues and waste and the industry pillar concerns the impact that the Government can make in supporting industry and wealth creation. Members may wish to discuss industry issues after our presentation.

967. Three priorities are identified on the slide to the left of the investment pillars. Those cross-cutting themes focus on the three key priorities: economic growth and competitiveness; society based on partnership, inclusion, equality, regional balance and mutual respect; and high-quality environment and sustainable development. That framework has a significant cogency in the context of the pyramid to which I have referred. This is only a framework within which Ministers

will determine future outcomes for Northern Ireland.

968. The pie chart shows the current investment strategy for Northern Ireland (ISNI), which was launched in December 2005. It is interesting to see how the networks and the skills are —

969. **The Chairman (Mr Wells):** May I just interrupt. I am reminded of a snooker game being broadcast in black and white, and the commentator saying that the pink ball is behind the green ball. Your colour presentation is difficult to follow on our black-and-white copies. The staff are printing bigger colour versions that will be much clearer. When you refer to the pink and the green, we do not actually know what you are talking about.

970. **Mr Gavaghan:** My apologies.

971. **The Chairman (Mr Wells):** The staff will distribute the colour copies as you are speaking.

972. **Mr Gavaghan:** Investment in networks represents 18% of total investment under the current ISNI. The current ISNI spend on skills is £3.97 billion. In enterprise terms, network and skills are a key constituency representing 44% of the total current investment programme. We might discuss this issue in more detail when we have the colour versions.

973. The ninth slide shows a table that details the projects with which we have been directly involved. These projects are now financially closed, and the Invest Northern Ireland headquarters and Lisburn City Library are operational. They represent about £350 million of capital investment.

974. I will talk about some projects in a little more detail. The importance of the roads package 1 cannot be emphasised enough. We have all had the experience of driving into and out of Belfast.

975. It is worth noting that that was the first publicly funded bond-financing of an infrastructure project in Northern Ireland. Before my arrival at the SIB, I was involved in the bond-financing of the Moyle interconnector, but that was a private bond-financing for a private purpose,

although it later went mutual. Therefore that was the first time that the Northern Ireland public utility sector accessed the capital markets in London. It was also the first time that the European Investment Bank had been involved. That is notable in the context of Northern Ireland embracing the European Union and the European Investment Bank seeing Northern Ireland as a really interesting place to invest in infrastructure, with an important focus on the Trans-European Network structures and systems.

976. The third point, which is fundamental, is the importance of involving local contractors. In the case of roads package 1, two local contractors took an equity stake in the special-purpose company. One of the great successes of that project was the involvement of local contractors in the equity, as well as in the work on the site, together with a world-class contractor with a presence across the globe.

977. The final point is critical: the pricing was as fine as anything in the capital markets, meaning that Northern Ireland is in a competitive place in the global procurement of infrastructure investment. There is no premium attached to doing business in Northern Ireland.

978. The second project was Project Alpha, the clean water project, and it was closed in May. For the Water Service and the Roads Service, the scale of some of the business activity that is now taking place — as Malcolm McKibbin said recently about the launch of roads package 2 — could only have been dreamt of in the past. The significant aspect of that project was the scale of the savings that were achieved, against what had previously been estimated: some 25% and some £50 million of capital savings.

979. Electronic human resource (e-HR) obviously has a high profile, but we believe that that project offers Northern Ireland a significant step forward in creating a more joined-up public sector. People across the rest of the UK are looking at that project very closely.

980. We believe that we have made significant further progress on a broad front. We have had a very active engagement with the supplier market, both here and overseas. They now take the opportunities in Northern Ireland extremely

seriously. Recently, one contractor told us that it saw Northern Ireland as a critical element in the focus of its resources in a UK context.

981. As for some of our other activities, we held a very successful infrastructure investment conference in Dundalk, with over 300 people in attendance. That was the first time that the National Development Finance Agency (NDFA) in the South worked together with us to face the outward market. That was a very successful event, and a reception that attracted over 100 key players was held here at Parliament Buildings with the Lord Mayor. That was a good event.

982. We also held a very good event in Derry last year, which we are repeating this autumn. The scale of the work that we are doing to present Northern Ireland both domestically and internationally is bearing dividends.

983. We are a relatively small organisation. Although our staff have grown from 17 people to 27 in the last year and a half, one of the key issues for us was increasing the local representation of the senior advisers. In our last recruitment exercise, five locally based senior people joined the SIB. That is very important.

984. Moving on to what we are doing right now, we are working hard to shape the second ISNI, to which I will return. The invitation to negotiate has been returned by the bidders for the Belfast schools' project. Last month, there was the announcement of 48 new schools across the Province. Roads package 2 will be at the stage of best and final offer in the autumn.

985. Project Omega is well on schedule for financial close in January 2007, if not before. For Workplace 2010, the invitation to negotiate was issued last month with four very good consortia working alongside local contractors. We also have the launch of the acute hospital programme, with potentially projects totalling £1 billion going to the market in the next year, with the 'Official Journal of the European Union' (OJEU) launch of the Enniskillen hospital project earlier this month.

986. We are actively involved in the Titanic signature project, and, the week before last, I

went to look at a project in Orlando. We are obviously actively involved in the 'Maze/Long Kesh Masterplan and Implementation Strategy'.

*11.00 am*

987. The key reason for sharing the Investment Strategy for Northern Ireland 2 (ISNI 2) development time line with the subgroup is its relevance to today's discussion and the engagement of a future devolved Government. The middle box at the bottom of slide 13 refers to the review of revenue impact on capital schemes. That is underway but will involve a huge amount of work.

988. Members will obviously be aware of the work on the comprehensive spending review, with the intention that Priorities and Budget will be launched in late 2007. We hope to have a draft of ISNI 2 ready by the middle of next year, and that is important in the context of today's discussions.

989. We thought that members would like us to discuss where PPPs work and do not work. There is a prevalent view that PPPs may not work, but I will highlight where they do. It is a matter of record from the National Audit Office (NAO) that PPPs achieve a better track record in delivery on time and budget for large infrastructure projects. Fundamentally, PPPs allow teachers to teach, by which I mean that teachers do not have focus on failing infrastructure. The risk is transferred, so teachers can focus on teaching. That principle obviously applies in other areas of infrastructure investment.

990. The fundamental premise behind PPPs, although it does not sometimes happen as well as we would all like, is that there is a much more rigorous approach in respect of project appraisal and consideration of user needs. PPPs allow a real focus on whole-life costs, which allows for the protection of infrastructure that was not hitherto possible, as budgets would be slashed. For instance, the Roads Service is very frustrated that the roads budget is often cut, when it should be protected for long-term, value-for-money propositions.

991. PPPs also provide a focus on proper apportionment of risk between parties. They



provide for poor performance to be penalised and give more transparency to the process, which sometimes needs to be considered. I say that in the context of the Scottish Parliament building, which, as you know, started as a £40 million project and ended as a £400 million project. Those areas of transparency are critical for public procurement.

992. In our experience, PPPs do not work for small projects. The current guidance is that PPPs or PFIs should not be considered for projects of less than £20 million. PPPs do not work where users do not understand their needs or where a client is not on top as regards the expertise involved in delivering the project.

993. It was announced last month that development work for 48 schools would be completed under the conventional funding route. That clearly shows that some projects, through the nature of the engagement, are inherently better suited to conventional funding as better value-for-money propositions. SIB was integrally involved in the assessment of those schools and the subsequent decision to choose conventional funding.

994. PPPs do not work where there is poor risk transfer. A good example of that is refurbishment, which is generally not a good transfer of risk from the public sector to the private sector, because of the premium that the private sector will charge.

995. I wanted to share the 5C framework on sustainability, depicted on slide 15, with the subgroup. I am attracted to the framework because it provides a holistic approach to considering infrastructure investment in the context of environmental and sustainability issues. The source is Forum for the Future. Jonathon Porritt, founder and director of that organisation, and a leading proponent of sustainability, included the framework in a recent book. For me, it is an extremely powerful diagram showing the agenda on infrastructure investment.

996. Among the challenges ahead for SIB are capacity and capability to deliver the massive infrastructure investment programme over the next 10 years, in relation to both public-sector

capability and capacity — which is obviously our primary focus — and private-sector capability. As members will know, we published a report in February that examined private-sector capacity and capability.

997. It is vital that there is a real sense of confidence-building and that our successes are banked. Regional disparities and social cohesion remain significant issues and challenges for Northern Ireland. I am absolutely convinced that a new model for urban regeneration is needed in Northern Ireland.

998. I have left my most significant point to the end: what will the population of this island be by 2050? The Irish Academy of Engineering report, ‘A Vision of Transport in Ireland in 2050’, estimated that the population of the island of Ireland would be somewhere in the region of eight million people by then. That is a fundamental issue for infrastructure investment.

999. **The Chairman (Mr Wells):** Thank you, Mr Gavaghan. Your last comments are particularly relevant to the work of the subgroup. We have been given an overview of the work being done by SIB. I remind members of the three main aspects of the subgroup’s terms of reference, which are to consider possible impediments to development; incentives to promote foreign and direct investment; and the peace dividend. Therefore, I hope that members will frame their questions to SIB in such a way as to tease out the necessary information to answer those questions.

1000. So far, Mr McNarry and Ms Ritchie have stated that they wish to ask questions. If time allows, Mr Neeson and Mr McLaughlin will ask questions also.

1001. **Mr McNarry:** Given that we are working from black and white copies of the SIB presentation, I am sure that David and Martin will give members black and white answers.

1002. Do you envisage that SIB will continue under a devolved Government?

1003. **Mr Gavaghan:** Yes.

1004. **Mr McNarry:** What makes you say that?

1005. **Mr Gavaghan:** The inspiration for and purpose behind SIB came from a devolved Government.

1006. **Mr McNarry:** Page 2 of your presentation refers to schools. I am particularly mindful that it was announced this week that the Department of Education failed to spend £69 million of its allocated budget. To what type of investment does your presentation refer? Is that money separate to the Department's budget?

1007. **Mr Gavaghan:** No.

1008. **Mr McNarry:** Therefore, the money listed in your presentation is the same amount as would be claimed by the Department.

1009. **Mr Gavaghan:** Correct.

1010. **Mr McNarry:** I concur with your later remarks about helping teachers to teach. How do you feel about the fact that £69 million was not spent and the criticism that schools that require high maintenance have not received it?

1011. **Mr Gavaghan:** I do not have the details to hand.

1012. **Mr McNarry:** You made a pitch, which I agree with, saying that the decks should be cleared for teachers to teach. The education boards have responded to the news that £69 million are still sitting there and have not been used. The money could have been used, in a sense, to help teachers to teach by improving the infrastructure of schools. What is SIB's view on that? What would you tell the Minister or the Secretary of State?

1013. **The Chairman (Mr Wells):** It is important to realise that SIB is an implementation body — it does not formulate policy. Departmental officials could answer questions on policy issues, but it is unfair to ask Mr Gavaghan to comment on a Government issue. I am entirely in the hands of the subgroup, but I suspect that Mr Gavaghan is constrained by the fact that this is a Government issue.

1014. **Mr Gavaghan:** Yes.

1015. **The Chairman (Mr Wells):** I do not think that Mr Gavaghan is being unhelpful, but members must understand the constraints that SIB is under when giving evidence. When

officials from the Department of Finance and Personnel or the Department for Employment and Learning — or whichever is the relevant Department — come before the subgroup, they will be able to answer that question.

1016. **Mr McNarry:** Chairman, as we have discussed in the PFG Committee, I am sure that you are stretching your remit. I acknowledge your point, but you must allow members to ask questions relevant to the final outcome of the subgroup's work, which is to produce a report based on the information that it has gathered.

1017. I pursued that topic because page 4 of the presentation states that 48 new schools were launched last month. Mr Gavaghan said that SIB had influence with the Minister on that development. What was SIB's involvement in the launch of the 48 new schools?

1018. **Mr Gavaghan:** SIB worked with the Department on the appraisal of the 48 schools. I would probably change the emphasis — I hope that I did not say that SIB had major influence. We helped the Department to appraise the best route to sourcing and building those schools, working with Partnerships UK, which is at the forefront of building schools for the future in GB, particularly England. We worked with the Department on an appraisal; that was our role.

1019. **Mr McNarry:** You have a role with the Department?

1020. **Mr Gavaghan:** Yes.

1021. **Mr McNarry:** Finally, Chairman, this is mostly just knowledge that I seek. Who decides the supported projects that are listed on page 3 of your submission?

1022. **Mr Gavaghan:** We would speak to our Minister, and the Department would speak to its Minister, and the process would be that the two Ministers would agree that we should support those projects.

1023. **Mr McNarry:** Where is the embryo born? The alpha drinking water project had a value of £111 million.

1024. **Mr Gavaghan:** When SIB was originally set up, a number of projects had been identified. We have taken on those projects and moved

them forward, and we have added more projects.

1025. **Mr McNarry:** Is there also a think-tank type of role involved?

1026. **Mr Gavaghan:** No. When SIB was created, we were handed a series of projects with a capital value of £1.2 billion, if memory serves. Alpha and omega were two of those projects, as was roads package 1. Obviously, more projects have been added since then.

1027. **Mr McNarry:** Finally, can I take it that the money that is detailed in your submission for projects closed and ongoing is not additional money?

1028. **Mr Gavaghan:** Those projects all come through the departmental budgets. You are correct; it is not additional money.

1029. **Mr McNarry:** So what do you bring to it?

1030. **Mr Gavaghan:** Our skill is to accelerate and review the delivery of projects. For instance, from the time that project alpha was originally estimated to when it was completed, we have been able, working with the Water Service and DRD, to bring it in below the original costs, making a significant saving. Through engagement with the international marketplace, there were six bids. We selected a shortlist of five. Through that competitive process, we were able to refine better terms, working alongside the Water Service and DRD. That is what we bring.

1031. **Mr McNarry:** So, you say —

1032. **The Chairman (Mr Wells):** This has to be your last question. You have had six.

1033. **Mr McNarry:** Thank you, Chairman.

1034. You say that SIB is expanding. What is the cost of your operation?

1035. **Mr Gavaghan:** Our operational cost is £4 million per annum.

1036. **Mr McNarry:** What will it be when you have expanded?

1037. **Mr Gavaghan:** We have expanded. That is it.

1038. **Ms Ritchie:** I have three questions on the implementation process. There were suggestions

the other day about the selection of contractors by SIB for procurement purposes, so I would like to ask about that. What action does SIB take to support small- and medium-sized businesses in Northern Ireland for procurement purposes? I am talking about Northern Ireland businesses, and then those on an all-island basis.

1039. Secondly, you said that urban regeneration was one of the challenges facing our economy, and you suggested that a new model was required. What discussion has the appropriate Department had with you, as an implementation body, about the best model of urban regeneration and its contribution to the economy?

1040. Thirdly, with regard to all-island prospects, what further work and planning have been done between you and the Departments responsible for infrastructure — the Department for Regional Development in the North, the National Roads Authority in the South, and the National Finance Agency — to make the Belfast to Dublin road a motorway and not a dual carriageway and to ensure that other areas have strategic routes into such a motorway to increase and develop their economies?

1041. I did not sail too close to the wind.

*11.15 am*

1042. **The Chairman (Mr Wells):** It will look well in next week's diary.

1043. **Mr McNarry:** You Down people stick together.

1044. **Mr Gavaghan:** We work closely with the Central Procurement Directorate on small- and medium-sized businesses; we have engaged actively with the Central Procurement Directorate and the Construction Employers Federation; and we have engaged with the small- and medium-sized business sector.

1045. The NIO report on the pathfinder projects on education identified the scale of the investment programme necessary in education in Northern Ireland. Of course we are subject to European Union rules, but we could adopt a slower, progressive, incremental approach; or a more significant approach that, SIB believes, would

result in better value for money and which would engage larger contractors.

1046. The industry could introduce efficiencies into the supply chain, and that would help all players to move forward. For instance, we have worked with the Housing Executive on social housing and have found that procurement in supply chains can be improved by working through housing associations. That is being done in all industries to create competitiveness.

1047. The other issue, which has been a challenge across the UK and which must be recognised, is that big projects, such as the hospital in Enniskillen, need a significant balance sheet to absorb the risk. Several contractors have taken risks that they could not absorb and have either had to contract severely or have disappeared. There are many challenges, and if there is a feeling among small- and medium-sized businesses that they are not getting a fair share, I am happy to engage in another dialogue with the Central Procurement Directorate and the Construction Employers Federation. However, there are some tensions there, Margaret, that are part of the programme that we face.

1048. We work alongside our sponsoring Department on several urban regeneration projects, including the Maze/ Long Kesh site, and we assist Ilex in Derry/Londonderry. More significantly, we know that in Omagh both the Lisanelly and Zanussi sites will be vacated next year, as will sites in Enniskillen and in several other significant locations across the Province.

1049. My feeling is that we have not developed a new thought process. In recent years, the English Partnerships model has been used successfully in England. It had a long germination period and has moved into many different guises, but it arose from the closures in the coal industry.

1050. SIB is developing an initial paper to examine the various models. It will talk to its sponsor Department and to the Department for Social Development, the Department for Regional Development and a number of other people to ask the Ministers what they would like to do now. In the context of urban regeneration, a report was undertaken recently

to examine the role of English cities, and we should consider commissioning a similar report on this island. The urbanisation of cities across the British Isles and the world is a key issue that has a major impact on urban regeneration.

1051. To answer the final question, the Roads Service has regular dialogue with the National Roads Authority, and SIB is liaising with the National Development Finance Agency to explore some of the options. I know that the Roads Service will review the key strategic routes and other work soon. As regards whether the north of the border section of the Belfast to Dublin road should be upgraded to motorway status, it is my understanding that the Minister has determined that it will be a very high-quality dual carriageway. That decision has been taken. Obviously, a future Minister — whether direct rule or devolved — may make a different decision.

1052. There will be many other opportunities to consider what should be done with regard to the strategic routes, which is one of the reasons why I posed the question of the population on this island. In the report, ‘A Vision of Transport in Ireland in 2050’, the proposition is that there will be four million cars on this island. The Republic of Ireland anticipates that the number of cars there will grow from two million to three million by 2030, which would have a significant impact on roads north of the border. We must address those important issues.

1053. **Mr McLaughlin:** Thank you for your interesting presentation, Mr Gavaghan. Through meeting and working with SIB, I have become familiar with the investment delivery framework graph. I congratulate you on the pace of progress to date. The cross-cutting themes shown in the investment pillars are absolutely appropriate. Given our current circumstances and recent history, the middle cross-cutting theme is of particular significance. How do we measure the outcomes and impacts of projects, both current and completed? Have all Departments and agencies signed off on this paradigm?

1054. **Mr Gavaghan:** I will start with the second question. This is just thinking at the moment; SIB has not approached the



Departments and agencies yet. Appendix 3 of the first investment strategy included a paradigm of how the prioritisation worked, and that will have to happen with this, therefore, the answer to your question is no. SIB is trying to find a more rigorous and holistic approach, hence it is going down that route.

1055. You asked about outcomes. Martin Spollen has been very much to the forefront of developing the thinking on that issue. Martin worked for SIB as a consultant on the first investment strategy, and, just like the Remington advert, he liked us so much he joined us. I recognise that consultants are often criticised, but Martin was so enamoured by the strategy that he joined SIB. That is a fantastic achievement for us.

1056. **Mr McLaughlin:** It does not affect the quality of your judgement or the work that you have done up to now, does it? *[Laughter.]*

1057. **Mr Gavaghan:** We have gone into a number of subsets on this. Mr Spollen will describe the background to that. This thought process came from work that Victor Hewitt, Director of the Economic Research Institute of Northern Ireland, helped us with. In Canada they have been looking at national performance for a number of years. They have produced a series of indices in the context of issues that have a strong resonance with Northern Ireland, in terms of the divided nature of the community. We have developed our thought process, picking up on key performance indicators. Each year a report is produced in Canada on outcomes related to the activities of the indicators. We try to identify and track how this might be done in Northern Ireland.

1058. **Mr Martin Spollen (Strategic Investment Board):** The priorities cut across the investment pillars. The experience last time was that Departments are good at generating ideas for investment within their areas of responsibility. Second time around, as we develop ISNI 2, we may find that that list will get even longer; and that capital values of potential investment may have also inflated over the period as schemes are worked on. We need a way of prioritising the projects within

each of the investment pillars up to the affordability limits that are set by Ministers for each of the pillars. We have used these three priority themes to see how that might influence investment choices. To the left hand side of a priority — and it is not shown on this graph but we have copies — is a set of sub-priorities that could effectively act as benchmarks or outcome measures, allowing you to go so far on one and then move to the next priority area and invest there to achieve balanced outcomes.

1059. It provides a comprehensive framework for investment decision-making. Weightings attached to different priorities will drive through and establish the ranking order. That might change over time as different Ministers have different views on what the relative priorities should be across these three main areas.

1060. **Mr McLaughlin:** It would be useful to have those additional criteria.

1061. **Mr Neeson:** I welcome your statement on the involvement of the European Investment Bank. To what extent is it involved, and to what extent are local investors involved? At our last meeting we spoke about the number of local investors investing outside Northern Ireland. From a purely personal interest, to what extent are you involved in Titanic Quarter and how advanced is that involvement?

1062. **Mr Gavaghan:** The European Investment Bank also participated in Northern Ireland Water Service's project alpha. We understand from a recent visit that it would like to be involved in a range of our infrastructure investment projects, including the hospital programme and the education programme. Yesterday we had to appear in front of the Department of the Environment's review of environmental governance committee. One person there asked what role the European Investment Bank plays in assessing environmental issues. It has to look at the environmental impact assessment bar for all European Investment Bank-funded projects. There are a couple of wins there.

1063. The European Investment Bank also helps support our Trans-European Network (TEN) programme. Another report, which I have here,

identifies where in Northern Ireland we can exploit future infrastructure investment projects under the TEN programme. That is significant. The European Investment Bank is integrally involved in the TEN programme.

1064. As to your second question on local investors, I emphasised in relation to both the Water Service's project alpha and roads package 1 the role that local investors played. There is huge opportunity for more active investment and local engagement in the market. This morning I saw Stephen Quinn, permanent secretary of the Department of Enterprise, Trade and Investment. Social enterprise is a vital area in Northern Ireland.

1065. It is a vital UK area, and a vital international phenomenon. Northern Ireland has been one of the leaders in social enterprise, and the investment of that capital is something that we really could take forward. I would be keen to embrace not just business enterprise, but social enterprise and social capital.

*11.30 am*

1066. Our specific involvement in Titanic Quarter is in helping the Department of Enterprise, Trade and Investment on the signature project. We have been engaged in a preliminary assessment that will shortly lead to the appointment of consultants to do a piece of work on what the signature project might or might not be.

1067. Titanic Quarter Limited and the Belfast Harbour Commissioners have come up with a second concept, which looks, intuitively, like a world-class attraction. There is a significant cost attached to it, however, and a challenging timescale — we need to have something operational by 2011. We also need to be mindful that, as well as the docks, Titanic Quarter has some magnificent buildings, such as the pump house. We must look at the site in total as well as connecting the Titanic experience with the Olympics. There is much to engage in, and two or three of my colleagues and I are involved in it.

1068. **Ms Gildernew:** Following on from what Margaret Ritchie said, could more be done to encourage the bundling of contracts in order to bring in the SME sector? Could the Federation

of Small Businesses (FSB), for example, not have better representation on the board to ensure that SMEs are included in investment packages?

1069. Is there any form of policy or strategy for investing in renewable energy? It is a potential source of employment and it would have a positive impact on the environment.

1070. Could capital expenditure be made available for projects such as the Ulster Canal? It has not only a cross-border link, but it would connect Coleraine to Limerick through the island's inland waterways, thus developing tourism in its surrounding area.

1071. When you were considering the stadium project, for which the Long Kesh site has been decided, the furthest west you looked was Cookstown. Does the east-west roads infrastructure, particularly the Donegal and Sligo link, create an impediment to the development of the economy in rural areas and west of the Bann?

1072. **Mr Gavaghan:** In relation to your first question and to Margaret Ritchie's enquiry, we could always do more, and I will go back and engage with the FSB. On the subject of its representation, we are a small board, but certainly one of the people listening will take those views on SMEs to the advisory council, which should have a more active engagement with them. We will definitely follow that up.

1073. There are several small family owned and managed contractors in Northern Ireland. I applauded some of those contractors the other day. One particular firm is still family owned, but it is now a significant player on this island and internationally. With the right ambition, small contractors can become medium-sized and then large contractors. That ambition is so crucial. Some of the small contractors need to think big to become big.

1074. All of us in Northern Ireland should have that ambition. We launched the biggest ships in the world 100 years ago, and we have businesses that have become world-class players. That must be the ambition.

1075. I am absolutely committed to engaging with small contractors, but with this programme,

the ambition must be that they build the right structures to become world-class players.

1076. **Ms Gildernew:** Their involvement in larger projects, either as individual companies or as companies collaborating on a project, will also further their capacity to become world-class players.

1077. **Mr Gavaghan:** That is correct.

1078. **Mr Spollen:** We would like to examine how to apply the North West Marketing supplier model more widely across Northern Ireland. SIB is discussing that issue with the Central Procurement Directorate (CPD). We intend to explore it as we develop the ISNI 2 and to consider how, within procurement rules, the package can be more SME-friendly. We must ensure that there is an economic benefit that acts as a multiplier, as well as getting things done for the region.

1079. **The Chairman (Mr Wells):** Three members wish to ask questions, and they will get the opportunity to do that, but, in the interests of balance, I will ask the members to my right to speak first, as they have not had a chance.

1080. **Ms Gildernew:** I did not get answers to a couple of my questions.

1081. **Mr Gavaghan:** I have not answered all Ms Gildernew's questions.

1082. **The Chairman (Mr Wells):** My apologies. I thought that Mr Gavaghan had finished.

1083. **Mr Gavaghan:** With regard to the third element in the subgroup's terms of reference, renewable energy is a fundamental requirement. The other day, I was listening to John Browne, the Chief Executive of British Petroleum (BP). We should put a great deal of emphasis and focus on that area, as it is a high priority. In the context of this report by a group of engineers, renewable energy is fundamental.

1084. As for the Ulster Canal, it must go through the appropriate Departments to become a project that would go up the priority list and be embraced. We have been considering UK- and British Isles-wide projects on the bases of opportunities for third party income, how much

funding is required and the potential for water-front developments.

1085. Finally, I do not have a specific answer to Ms Gildernew's question on roads infrastructure. However, we probably need to do more work to consider the impact of roads on local economies, not only on strategic routes, but on regional and local routes, North and South, east and west.

1086. **The Chairman (Mr Wells):** To move things on, the next three members will have five minutes each to ask questions and conclude this session.

1087. **Mr Simpson:** Thank you, gentlemen, for your presentation.

1088. Mr Gavaghan, when will the 10-year investment policy start and finish? How much input do local councils have in identifying projects? Are they consulted? If there is little consultation, do you envisage greater consultation when the super councils are created, taking into consideration the extra powers that those new councils will have?

1089. **Mr Gavaghan:** The current investment strategy runs from 2005 to 2015. The second investment strategy would be slightly different from the national development plan in the South, where the strategy runs for six years, which will be from 2007 to 2013. We have in our mind's eye — and it is a by-product of the three-year firm spending under UK Government policy — that the next investment strategy will run from 2008 to 2018, so it will be a rolling 10 years.

1090. **Mr Simpson:** Is it a rolling budget, or is a different budget determined for every period?

1091. **Mr Gavaghan:** The graph for the total investment programme showed the confirmed and the indicative. It will be confirmed for the first three years of the next investment strategy and will be indicative for the period beyond that — the seven years.

1092. The indicative is a relative concept. If an investment is undertaken via PPP then that commitment has been made and, therefore, although it may appear to be indicative, it is a firm commitment. That is an interesting issue

when it comes to infrastructure and investment. That is why the Republic of Ireland recently decided on a 10-year capital investment programme of €34 billion for its transport structure. It committed €34 billion over 10 years, and that is a significant difference to the approach taken in the UK. It is a difficult issue for the Department for Transport and the Treasury.

1093. Different councils engage to different extents on identifying projects. I make myself available when councils want to engage, and I will go to any part of the Province. Some councils are keen to engage on their own dynamic, and others feel that the SIB is not accessible. Perhaps we should revisit how we engage with councils.

1094. I have no doubt that having fewer councils will make people look in a much more coherent way at how things come together: for example, requirements for health, education, roads, rail, etc. There will be more coherence in the aggregation of those plans. We will be happy to engage with the councils, but the aggregation goes through the Departments. We are happy to engage at any level — debate and dialogue, looking at how proprieties are set and at what really works at a local level.

1095. **The Chairman (Mr Wells):** Thank you for sticking to the time, Mr Simpson.

1096. **Dr McDonnell:** I will try to stick even closer and maybe even come in under the time.

1097. Mr Gavaghan, thank you for your presentation. It was fascinating and I am sorry that we do not have a whole day to listen to the various aspects of the matter and probe some of them.

1098. My question falls into two parts and is fairly minor. What do roads package 1 and roads package 2 entail, what is e-HR, what are you investing in agriculture, forestry and fisheries, and where are you looking at waste management? Those are just short, quick questions. Sometimes we get mixed up with the jargon and take a back seat. I presume that the Westlink is roads package 1, but what is in roads package 2?

1099. Secondly, the subgroup is charged with defining, in a few weeks, the obstacles and challenges that face the Northern Ireland economy. What should be our top two or three challenges? We have dealt with the detail and infrastructure.

1100. **Mr Gavaghan:** Roads package 1 is the Westlink. Roads package 2 is a series of projects, including the improvement of the road network from the border to Belfast, plus a significant element on the road out of Belfast towards the north-west. I will send you the details. There are about six different road improvement packages that fall into roads package 2, with a total capital value of around £250 million.

*11.45 am*

1101. Electronic human resource enables the provision of human resources to all staff so that they can effectively take control of human resources across the entire NICS. It is a transformational project in that it enables the electronic use of human resources in a way that hitherto has not been achieved in Northern Ireland. The project runs across all 11 Departments. That represents a huge opportunity to consider how efficiencies may also be created in local government.

1102. I was asked about agriculture. SIB has no specific involvement in agricultural projects, although from time to time we have had discussions with the Department on the impact of the Nitrates Directive, but that is not a supported project.

1103. We have been working with the Department of the Environment and the councils on how to ensure that Northern Ireland complies with the EU directives on waste. We have helped the Department, in co-operation with a consortium that was coalesced through the councils, to consider a programme-delivery service unit with the procurement of the appropriate infrastructure for waste technology in Northern Ireland.

1104. **Dr McDonnell:** What about the bigger question of obstacles?

1105. **Mr Gavaghan:** The SIB has set out several challenges, and we should not



underestimate the challenge of our existing task. I am reminded of my grandmother, who would say that if you are going to do a job, do it well. We must ensure that we perform our current task well. That is a huge challenge. If we perform that task well — and we are beginning to make good progress, working with Departments and the public and private sectors — that will build enormous confidence from which we can do so much more.

1106. If we do not complete our task well and build a sound base, we will face great challenges later. The fundamental task is to put in place the resources to complete the job that we have ahead of us.

1107. One of our great challenges is how to open the economy to the world, and vice versa. There is a huge opportunity, and it is a huge challenge to persuade the world to visit us. I have been here for only two years, and this is a wonderful place. If we can get more people to come here and see how wonderful it is, that will create huge opportunities and we will see enormous change and growth in Northern Ireland.

1108. **The Chairman (Mr Wells):** We have about five minutes left. Lord Morrow is indicating that he wishes to speak on this matter. I think that it is fair enough to give four minutes to Mr Beggs and allow Lord Morrow one question, as we have kept Mr Morrison waiting for quite a long time.

1109. **Mr Beggs:** We have heard about the money that will have to go back to the Treasury — a point that David McNarry raised earlier. Most of that money has been returned because of delays in capital projects. PPPs normally have penalty clauses. Have PPP budgets contributed to the return of that money to the Treasury because of delays in the PPP process?

1110. Have the completed SIB projects, such as Invest Northern Ireland headquarters and Lisburn City Library, come in on time and on budget, or have there been any significant additions or oversights? Additions are expensive and that is how contractors make their money.

1111. Are you content with the current level of interest from the international marketplace, or is

there a need for more competition? In relation to the completed SIB projects that have involved international players, what percentage of the funds do you estimate ends up going to local subcontractors and what percentage of jobs goes to local people?

1112. There is little benefit to Northern Ireland if all the jobs are to go outside the region. You give very significant savings of 25% for the Alpha project. What were your expected savings in the public-private partnership project, and do you have an estimate of the savings that SIB has achieved to date?

1113. **The Chairman (Mr Wells):** For completion, Lord Morrow, you may finish off with your question.

1114. **Lord Morrow:** I will accept the crumbs.

1115. I know that you did not attribute blame one way or the other for your lack of engagement with local councils, but could you take a more hands-on approach with them? There are to be seven, although that is today's news; tomorrow's could be different. That is how things work here.

1116. You also said that contractors should be "thinking big". Contracting in this country for the past 20 years was very difficult, as small companies could not think strategically or big because of the lack of road building and improvements. However, several big schemes are running at the minute, such as the Westlink and the dualling of the A4 from Dungannon to Ballygawley, which is a contract of about £130 million. What role can you play in encouraging contractors to think big?

1117. **Mr Gavaghan:** I do not know the answer to Mr Beggs's first question. I will find out for him.

1118. **The Chairman (Mr Wells):** You have undertaken to write to us on other issues, so perhaps you could include that.

1119. **Mr Gavaghan:** The Lisburn City Library project was undertaken before my time. However, the Invest Northern Ireland headquarters project was delivered in 30 months from the first OJEU advertisement to the completion of the building. One cannot

underestimate that achievement. The contract was done in 18 months, and a local contractor built the headquarters in 12 months. Significant residual risk on the property was passed to the contractor. One of the benefits of the transactions is that whatever additional costs there might have been — and I do not believe that there were any — were passed to the contractor, because it was a fixed-price contract.

1120. I take your point that sometimes changes can result in the contractor passing costs back, but we have learned from cases across the whole of the UK about how to be much smarter about procurement, whether conventional or otherwise. I must emphasise that the SIB's locus is not just PPPs; it is across the whole programme of infrastructure investment in Northern Ireland, whether conventional or PPP. SIB has brought benefits that will bear dividends in future. They include intangibles, which will take time to identify and measure, such as the standardisation of contracts, the acceleration of the process, and ensuring that strict timetables are adhered to.

1121. At the moment, we feel that we have done much to engage with local contractors vis-à-vis the international market. I take entirely the point that we can always do more, but please remember that we have finite resources. The accusation is often made against me that I would go to the opening of an envelope. There is a limit to how much one can do. At the moment, we are content, but I do not want to be complacent. You are as good as your last project, so we have to ensure that we are resonating and that we are doing what we say we do on the tin.

1122. I am a blow-in, but we have settled here. There are huge opportunities for people to settle in Northern Ireland, and there are also opportunities for local people such as Martin. That is why I emphasised that five of those appointed during our last recruitment drive were local people. It is a win-win situation. A number of international players are setting up offices here, recruiting local people and creating more wealth. They are not taking their money out of Northern Ireland; they are bringing money into Northern Ireland. We need to track that more actively.

1123. Returning to my previous point, we have not confirmed our estimated savings. However, if you are asking whether we believe that our contracts have saved Northern Ireland taxpayers more than they have cost them, the answer is yes. The subgroup will obviously want more detail on that, and we will consider that option with our sponsoring Department as time goes on. It should be remembered that the Strategic Investment Board is only three years old.

1124. **Mr Beggs:** Even at this late stage, it would be useful if a figure could be provided. You mentioned that 25% had been saved in one project. It is not necessary to have the whole figure; I would be interested even in a provisional figure.

1125. **Mr Gavaghan:** I take the point on our engagement with local councils.

1126. Forgive me, what was the final question?

1127. **The Chairman (Mr Wells):** It was about contractors thinking big.

1128. **Mr Gavaghan:** I am happy to engage with local contractors. However, trade bodies and associations need to represent their members, and engagement should be at an aggregated level. I am more than happy for there to be individual players, but more representation is required. There also needs to be recognition of how supplier models can help. As Martin said, we are keen to find ways of bringing those together — not, perhaps, in a standardised way, but to create more aggregation in order to make an impact.

1129. We have been working on the north-west supplier model, which was developed from the Coolkeeragh power plant. We are examining how that model can be developed through engagement with the small and medium-sized sectors, as well as big players.

1130. **The Chairman (Mr Wells):** Thank you, Mr Gavaghan and Mr Spollen. You have answered our questions fully, and we look forward to the additional material that you promised. In fact, you have answered more questions than we predicted, so well done. You are welcome to stay for Mr Morrison's

presentation. I am sure that there is good contact between your two organisations.

1131. Owing to time constraints, the presentation will finish at 12.45 pm to allow the subgroup to conduct some private business. Please keep that in mind.

1132. You are very welcome, Mr Morrison. The veterans of the Enterprise, Trade and Investment Committee know you very well. I do not know how many times you have sat in that chair. There were different Chairmen then, but I am sure that you recognise some of the faces from those days.

1133. **Mr Leslie Morrison (Invest Northern Ireland):** I do not think that I have met Mr McNarry, but I have met the other members.

1134. **The Chairman (Mr Wells):** You have provided a summary of your views at very short notice. You are aware of the subgroup's remit and the specific issues that it is considering. I appreciate the fact that your presentation is very focused on the subgroup's three terms of reference, which is most welcome. You have clearly read our brief carefully and responded accordingly.

1135. As with the SIB presentation, you will make a few opening remarks. If members wish to speak, they will indicate to either the Clerks or me.

1136. **Mr Morrison:** Thank you, Mr Chairman. I will introduce Damian McAuley, who is our director of strategic management and planning. Many members already know him.

1137. As you said, Chairman, we tried to focus on the subgroup's terms of reference, and we welcome the opportunity to give our response.

1138. We have not prepared anything on what we do, or what we could or should do. Those issues may be teased out in our discussions later on.

1139. You asked us to focus on three topics: impediments to the development of the economy; fiscal incentives that might promote foreign direct investment and indigenous investment; and an economic package or peace dividend that, if properly allocated, might contribute to economic regeneration.

1140. Some impediments — “impediment” is an interesting word — or weaknesses are inherent to the situation in Northern Ireland. However, all economies have weaknesses, which require large and long-term efforts to turn them around. Some impediments are obstacles that can be removed in the short term, and some weaknesses can become strengths. For instance, the fact that Northern Ireland is a small region can become a strength if we are smart and pull in the same direction.

*12.00 noon*

1141. I could compile a long list on this topic, Chairman, but you have asked us to focus on important matters.

1142. We must recognise how small our domestic market is. Gross domestic product (GDP) in Northern Ireland is about £23 billion, which is tiny. Consequently, businesses must grow by selling externally. Long-term wealth will reflect net exports and earnings from overseas. The domestic economy — that is, the economy that sells to domestic consumers — is critical. However, in the long term, our wealth will increase only with net exports and earnings from overseas.

1143. Given that that is the challenge, what are our structures? There are many micro-businesses, and we have a microeconomy. Ninety per cent of companies employ fewer than 10 people. Most world economies are dependent on small- and medium-sized (SME) enterprises — however, overseas SMEs would constitute large enterprises in Northern Ireland. Many local companies lack the skills and resources to develop external markets. During the previous evidence session, the word “ambition” was used; local companies often lack ambition. That lack of ambition derives from the fact that the companies are small and there is a deficit of skills and resources.

1144. Consequently, Northern Ireland has low innovation levels, which lies at the core of our problem. Innovation is defined as being not only research and development (R&D) — which is a large component — but the ability to develop new products, services and processes. It is a complex subject.

1145. The 'UK Innovation Survey 2005: Northern Ireland Results' contains some interesting statistics. It states that 56% of enterprises in Northern Ireland are innovation active — that is, they are conducting innovative business. That statistic is similar to the UK as a whole, where the figure is 57%. There is not a huge structural difference between the proportion of companies conducting innovative business, in the way that I have described it, and the rest of the UK.

1146. Proportionately, however, slightly fewer companies in Northern Ireland are innovative in product and services development — 21% in Northern Ireland compared to 25% in the rest of the UK. However, process innovation is quite good — 19% in Northern Ireland versus 16% in the rest of the UK. Those statistics are not wildly surprising, given the structure of industry here. Innovation and R & D are carried out by large companies, and most large companies in Northern Ireland are multinationals.

1147. Innovation in R&D tends to be centralised fairly close to head offices. Plants must be efficient, so those companies that are involved carry out process innovation. In that context, the structure of our economy tends to drive the relative distribution of process and new product innovation. However, to become much more innovative we need to develop new products and services.

1148. We can draw on another important study, on which I shall focus to set the scene. The biggest element, and the easiest to measure, is R&D. As we all know, business R&D spending is low in Northern Ireland, at about 0.5% of GDP. In the UK as a whole, that figure is about 1.2%, and the Republic's figure is 1.4%. The highest figure among developed countries is that of Japan, which is at about 3.7%. To give members a sense of calibration, the EU wants to get to 3%, and the Republic's target is 2.5%.

1149. It is interesting to note that the last time that it was assessed, roughly 50% of R&D in Northern Ireland came from universities. Our private sector R&D is particularly small, and that accounts for the 0.5% figure. If we were to arrive at a gross total based on both, we would

find that the difference between Northern Ireland and the rest of the UK is not that great. The deficit lies in the fact that the private sector does not do nearly enough R&D.

1150. Some members may be familiar with Prof Harris's study for the Centre for Public Policy for Regions (CPPR), which was published in January. He made several comments that are pertinent to this matter and that we could take on board. The fact that Northern Ireland has so few large companies is a big determinant of the amount of R&D. Tiny companies do not have the necessary skills or resources.

1151. Sector matters a lot — we are very heavily dominated by food and drink, and, to a lesser extent, paper. Those businesses do not carry out much R&D. They are not hugely profitable, and they do not have the scope to do R&D. That tends to depress the potential.

1152. Our absorptive capacity is a big factor. If we were able to get companies to do much more R&D, could they find the researchers? Not necessarily. We are not producing enough scientists, and not nearly enough PhDs, for example. The structural elements must be in place; it is not just a matter of spending money or getting other people to spend money.

1153. Finally, Prof Harris said that companies that are supported by public sector funding in Northern Ireland are about 8% more likely to carry out R&D than other companies. In fact, the number of establishments in Northern Ireland that carry out R&D and receive support for it is proportionally about two and a half times higher than the UK average. Prof Harris concludes that if there were not public sector support for R&D, it is likely that private sector R&D spend would be much lower than it is even now. He therefore felt that the importance of public money support for R&D was great.

1154. Those are good data points from which to illustrate my broad point on the need for innovation. The consequence of that is that this is a low value added economy. That means that we do not have enough highly productive and very profitable companies. We need those companies to be able to counter the fact that this is no longer a low-cost place, and it never will



be. The good news is that if you are low-cost, you are poor, and we are no longer poor. Our economy is probably one of high or medium cost, and that is a challenge. We are clearly not as high-cost as north American cities, or London and Dublin, but we have a heck of a lot higher costs than Poland, not to mention China.

1155. At the moment, our economy is one of high-medium cost. Our value added is increasing, but not by enough. That means that our GDP per capita is 80% of the UK average. The largest portion of our value added is composed of salaries. People can pay more if they are making more money. Therefore companies must become more profitable and be able to pay more in order for us to get richer. This is a very big challenge for us that, in my opinion, must be fought over the long-term.

1156. Turning to the impediments and what can be worked on, the man from Mars would say that the thing that hits him between the eyes is the very high level of economic inactivity, which is around 27% here compared to 21% in the rest of the UK. That is obviously a big waste of human resources, particularly at a time when the labour market is tight.

1157. The unemployment rate is less than 4.5%. Many sectors are finding it quite hard to get labour, which is why more and more immigrants are coming to Northern Ireland. We need to think hard about how to tackle the problem of economic inactivity.

1158. Northern Ireland is a small and insular area that is, as I somewhat poetically say in my presentation, “bruised by years of strife”. Cultural hurdles are a big factor. Psychological factors are also big in Northern Ireland, which contributes to a lack of optimism, leads us to be more conservative than necessary and more afraid that we will fail. We are often told that we have a fear of failure in Northern Ireland; much of that comes from the past.

1159. Optimism is of paramount importance for economic activity. A study by an academic from Trinity College in Dublin a few years ago suggested that optimism was the single most important element in economic development. I have just returned from north America, where I

lived for a long time. The difference in mentality there is tangible; the attitude is: we can do it; we will do it; what is the problem? Northern Ireland must change its entire mentality and develop a can-do mentality. That is easy to say, but hard to do.

1160. Skills shortage is an obvious problem. There are areas in which Northern Ireland is short of skills at the highest levels of academic and vocational training. There is a need for better continuous education and retraining. We recognise that, in the modern world, people do not get degrees and forget about them — people must be constantly retrained. The most important thing is to be able to learn rather than to know something. Better facilities and courses for lifelong learning are required.

1161. There was a discussion about transport infrastructure earlier. I do not consider that to be a major issue, but the infrastructure still falls short. It is a particular problem in the north and west of the Province where there are insufficient dual carriageways. Good transport networks are especially important for sectors such as the fresh foods industry, which is predominant in Ms Gildernew’s part of the world. Fresh foods must be delivered to England, and delivered quickly. Inferior transport infrastructures constrain some sectors more than others.

1162. Planning in Northern Ireland is cumbersome and must improve. Invest Northern Ireland uses the Planning Service, as it owns property that it develops for its clients, and we have the same planning issues as people in the private sector. A way to speed up the planning process must be found.

1163. My final point links to the psychological tone of my presentation. The political tone is dispiriting to people in Northern Ireland. Potential overseas investors are fairly neutral; it is important to them that there appears to be no more violence and that there appears to be peace in the streets. However, potential investors are nervous because there does not appear to be particularly holistic cohesive political leadership. That is important for some people but not others; it depends on to whom one talks. You asked me to highlight impediments

— I feel that the overall political tone is holding us back, but we can do something about it.

1164. Chairman, you asked us to move on to the fiscal incentives that might promote foreign and local investment. You specifically asked about headline corporation tax and tax credits. The question about headline corporation tax is easily answered: it would attract increased and more profitable foreign direct investment (FDI). Multinationals manage their tax bills. They transfer revenues to low tax-rate jurisdictions in order to shelter their taxable earnings. To an extent, the Republic is a tax haven for corporate tax.

*12.15 pm*

1165. That would happen necessarily, because all multinationals — all companies, actually — try to minimise their tax burdens, within the law. Therefore, if the headline tax rate were set low enough, there would be a definite advantage that Northern Ireland could garner. I did not mention the likelihood of that happening or its feasibility. Invest Northern Ireland knows that there are real problems with that, but, since members asked: yes, it would make a big impact. Additionally, there is no question that that would encourage local business formation and the growth of the economy by increasing the return on capital. Assuming that Northern Ireland achieved a rate at parity with the Republic, there would be a dramatic increase in the return on capital, after tax. The effective tax rates are closer than the headline tax rates, but they are not close enough to make up the difference.

1166. Northern Ireland business needs to be more innovative. It is important, therefore, for us to recognise that low tax rates would improve the sectoral mix here for the better. By definition, much more profitable businesses, such as pharmaceutical companies, would base themselves here because they could shelter tax, which is good for all kinds of reasons. However, that would not necessarily make Northern Ireland more innovative.

1167. In financial terms, operating expenses, such as R&D, would shelter less income in low-tax jurisdictions. Therefore, having a low tax rate would not tend to encourage companies to base more R&D in Northern Ireland. In fact, it

would do the opposite. Quite a lot of the foreign investment in Northern Ireland is R&D orientated. That is because the businesses are cost centres that employ people to do R&D. Low taxes do not help this activity, but, on balance, they would help the Northern Ireland economy.

1168. Members asked about tax credits for R&D. Of course, they would be helpful. Prof Harris's study, which was published in January, and that I suggest that members read, deals with that issue. Northern Ireland offers tax credits for R&D. However, Prof Harris's study addresses higher tax credits. At the minute, tax credits amount to 50% for SMEs and 25% for large companies. Prof Harris has prepared a model that doubles both those amounts to gauge the potential effect. Higher tax credits would not bring transformational change to value added in Northern Ireland, but they would be helpful and would broadly supplement the innovation tool kit. However, they must be allied with grants and expertise, because if many of the small companies in Northern Ireland were given additional money, they would not be able to spend it. They do not have the necessary staff and they do not know the innovation process. They would need help.

1169. It is notable that the majority of money spent by Northern Ireland private companies on R&D goes on in-house projects. The interesting thing is that in the rest of the UK and in other larger economies, the majority of R&D is outsourced. Those companies that outsource most of their R&D to universities and think tanks do far more R&D than the companies that keep it in-house. Obviously, outsourcing brings international expertise. Northern Ireland really lacks that same intensity of international expertise because it does not outsource much R&D. I believe that that is because Northern Ireland companies are too small and do not have the ability to absorb that work. That is the circle that we need to work on.

1170. I was asked how an economic package or peace dividend might contribute to the situation. I cannot speak about infrastructure because that does not fall within my remit and I think that David Gavaghan referred to a number of those

issues. However, Invest Northern Ireland could certainly use a lot more money for its programme budget for innovation and entrepreneurship. There is a limit to what INI could spend because of the absorption capacity issue, but in my view, it could spend significantly more.

1171. In my presentation, I referred to sunrise-sector initiatives. By that, I mean a number of sectors, the most obvious of which are healthcare and biotechnology.

1172. That is a very long-term hurdle to jump over. It requires more resources than are available. It might be a 10-year effort. One could do more, for example, on clinical diagnostics. Alasdair and I have spoken about that. It would require a lot of money to hire specialist nurses and so on. You can clearly see areas that could use long-term development.

1173. Nanotechnology is not really an industrial sector; it is a cross-cutting technology that applies to a lot of sectors — electronics, healthcare, biotech, even textiles and food. We have expertise at the two universities. Seagate is the largest nanotech manufacturing company in the UK. We do not have much, but we have something on which to build. There have been attempts, through the universities and through us, to focus more resources on that, but it is faltering because we do not have enough money. That is an area where we could begin to encourage more manufacturing here, which would be helpful.

1174. We would like to see an increase in funding for vocational retraining. This goes back to the point about lifetime learning, mainly through the FE colleges, although the universities are becoming more interested in doing postgraduate degrees that are more adapted to the needs of businesses. There is a sea change in higher education in people's attitudes towards spending their money in alignment with economic development needs. We could use more money there, and so could they.

1175. Although the universities here spend rather more than half of the total R&D expenditure in the Province, they could still profitably spend more — less in the areas of pure research than in knowledge transfer, which is getting better but is still undeveloped at both universities

compared to best practice. There are areas of economic potential that we are working on. We have a proof of concept fund, as you know. I wish it were many times bigger — it has been very successful. There are things there that we could spend money on.

1176. In relation to the problem of long-term unemployment and economic inactivity, there is a return-to-work credit that is distributed through the Department for Employment and Learning. Enhanced financial measures such as that could encourage people by incentivising them to work rather than take benefits. It is a potential incentive that requires study. I do not know enough about it to be able to make a recommendation, but it seems to be an intelligent thing to consider spending more money on.

1177. I have tried to link some thoughts to what we see as the deficits, and to keep the presentation fairly tight. I have probably overstayed my welcome as regards my presentation, but I would be happy to answer any questions.

1178. **The Chairman (Mr Wells):** Thank you, Mr Morrison. We will start with the gentleman to my right, Mr Simpson. If a party colleague is asking a question, feel free to make it a team effort, and perhaps we can get through it by 12.45 pm.

1179. **Mr Simpson:** It is good to see you again, Leslie.

1180. At the outset, we have to acknowledge that there is no quick fix for a lot of these issues. We have to be realistic. Have you any up-to-date budget figures for the entrepreneurship programmes? What is budgeted for this year, considering that there has been a cut in the overall budget?

1181. To return to something that I raised with the Strategic Investment Board (SIB) earlier — the coming change in local councils — we do not know the budget that will be given to their economic development units. Do you have any indication of what the budget will be in relation to handling local enterprise systems and how that will operate locally?

1182. You mentioned the cumbersome detail that Invest Northern Ireland has to go through

in relation to planning. If Invest Northern Ireland has a major project of 200,000 sq ft, has it any influence with the Planning Service in order to have it fast-tracked?

1183. The Northern Ireland Business Alliance and the Confederation of British Industry have said that 140,000 jobs need to be created over the next 10 years. If everything that you have presented today were put in place, would that be achievable?

1184. **Mr Morrison:** Local business starts are sometimes confounded with entrepreneurship, which, as Mr Simpson and I have discussed in the past, is much broader than that. However, they form part of the picture. The 'Start a Business' programme itself had a £4 million budget last year, and it will be held at that as far as the eye can see. That programme is being redesigned and recalibrated and, while it has already become progressively more effective, it will be much more so.

1185. We also raise entrepreneurship awareness at enterprise shows and on television and so on. There is approximately £3 million in that budget.

1186. The accelerating entrepreneurship strategy says that entrepreneurship is about starts and about making existing businesses grow faster and become more effective. Therefore entrepreneurship gets very bound up with what we do with existing companies. I cannot divide that out; it would be impossible to say what is allocated to entrepreneurship rather than, say, innovation. However, the budget referred to is for trying to frame the business starts part of it, and for raising awareness.

1187. Regarding the Review of Public Administration, we have provided a list to our sponsoring Department. Officials there are now talking to the groups sponsored by the Department of the Environment, and we are at a fairly early stage of discussions about what the larger, more empowered councils will do. Damian McAuley has been our liaison officer on that, and we have gone public with the things we believe the council should do on economic development. In broad terms we have said that the regional agency should deal with the

companies that are in its remit, namely those that either do, or can, sell externally.

1188. Our definition of a client — and it is not a very high hurdle, honestly — is a company that can sell £100,000 a year and that will make 25% of its sales externally within three years. That does not mean that all companies will become clients, but that is the criterion.

1189. The councils could administer the 'Start a Business' programme. Elements of social entrepreneurship and incubators are the guts of it. That has been public for a while, as you know, and we are moving into the phase of discussing it through the local government task force and getting feedback from the councils and from the Department of the Environment. Do we have a timetable for that, Damian?

1190. **Mr Damian McAuley (Invest Northern Ireland):** The first formal engagement with the task force will be on 1 August, when the Department of Enterprise, Trade and Investment (DETI) will present broad proposals. There will then be an engagement with the task force and feedback, with a view to making an initial report to the political panel on 15 August. The aspiration is that the final report to the political panel will be presented on 15 October.

1191. **The Chairman (Mr Wells):** If an additional member leaves the subgroup we will not have a quorum, so it is important that everyone holds out.

1192. **Mr Morrison:** Correct me if I do not hit the questions that were asked. You asked whether Invest Northern Ireland had any influence with the Planning Service to fast-track large projects. The Planning Service holds us at arm's length, as though we were a private organisation. As with all human relationships, if you know people and work well with them you can sometimes get problems solved. Of course, the same would be true of the private sector. We have no special position and probably suffer the same frustrations as the private sector.

1193. **Mr McLaughlin:** Sometimes you do not.

1194. **Mr Morrison:** Sometimes things work. The Business Alliance has said that 140,000 jobs must be created over 10 years. My personal



view on that statement is “maybe”. It is predicated on a lot of assumptions that must be carefully examined. We had an interdepartmental discussion recently in which I said that that claim carried both plausibility and implausibility. The Government should have a concrete position on the issue, and a macro-economist should be tasked to come up with that.

1195. It is very easy to panic about numbers like that. In fact, Invest Northern Ireland’s clients and its ‘Start a Business’ programme have created close to 10,000 jobs, so those figures do not panic me very much.

*12.30 pm*

1196. We must be careful not to extrapolate using past trends. The recent job creation in the tradable services and manufacturing sector by companies from overseas has been in financial services and software development. Six or seven years ago those companies would not have come here; they felt it was too dangerous. However, companies such as Citibank, the Indian companies Polaris and ICICI OneSource are now here, and Northbrook Technology has expanded in Derry and Strabane. That would not have happened six or seven years ago, and we must realise that we are still very unrepresented in those sectors, so that hurdle may not be as scary as it appears. The only question is whether it is really the right number, and my answer is that I am not sure.

1197. **Ms Ritchie:** Gentlemen, you are very welcome.

1198. The private sector in Northern Ireland is underperforming. There is a possibility that if resources are put into the private sector some of the public sector could be displaced, and there is a fear that a mobile private sector, with its public sector associations, could leave Northern Ireland and locate elsewhere. What incentives should be given to the private sector to ensure that that does not happen?

1199. Secondly, does Invest Northern Ireland see advantages in adopting an all-island approach to attracting substantial investment, with some investors locating one arm of their enterprise or industry — in manufacturing or

whatever sector — in the North and another in the South?

1200. **Mr Morrison:** As regards the private sector being mobile, it is, so get used to it. That is life; that is the way it is. Nothing can be done in an open economy to prevent that. We must bear in mind that although domestic, locally owned companies are more sticky — they are here because they are from here and they like it here — they are also becoming increasingly mobile. The only way to prevent that is to make Northern Ireland a very good place to do business, by virtue of cost structure, but more so by virtue of the supply of people. Our greatest asset is a good supply of educated people. Is it a good enough supply? No, it is not. Do we have enough people who are sufficiently skilled and educated? No, we do not.

1201. However, we have a relative advantage. Invest Northern Ireland’s contracts with investors include covenants, which are usually tied to commitments to job creation within a certain time period or hitting business targets. If investors do not do the things that they say they will do, we can go after them for the money that we have given them, to the extent that it has not been earned. Thus investors can be contractually tied.

1202. However, all capital is mobile, and we must continue to make Northern Ireland a good place for businesses to locate to. We should remember that, for certain industries, this is already a good place to be. Northern Ireland is a world-class near-shore location for service industries because we speak English and have good people, and because of our time zone. It is for those reasons that three large Indian multinationals in the software development and call-centre sector are coming here. People ask me whether that is not risky, but I tell them that those companies already have huge operations in India and are coming here because they need near-shore capability, just as our companies have to go to India for reasons of cheapness. Northern Ireland has attributes that will attract people, both domestic and foreign, but we must struggle to maintain our edge, and no restrictive covenant can be placed on people.

1203. There are two factors with regard to the all-island approach: the intra-island trade potential is considerably underdeveloped; and both economies are tiny while the world is massive. Jointly promoting all-island trade makes a lot of sense. In certain sectors, such as food, that is already being done, and it works quite well. Certain countries like to see us as being from the island of Ireland while others do not care. If we are intelligent about promotion and focus it right, we can do well.

1204. As to foreign direct investment, a study is underway through the British-Irish Intergovernmental Conference to look at potential benefits. Invest Northern Ireland meets regularly with the Industrial Development Agency and Enterprise Ireland to see what we can do together. We already have a number of initiatives, particularly in the north-west; however, a lot more could be done. The secret of marketing is differentiation. If you say: "Come to Ireland. It does not matter which part of it you come to", we will lose every time because there is a 12.5% tax rate south of the border. What we need to say is: "Come to Ireland, and the reasons why you would come to Northern Ireland are people, infrastructure and broadband for example". We need to be selling the differentiation. There are markets, such as the United States, where people like to think you are just from Ireland. We can wear whatever cloak works in whatever market. We are very pragmatic.

1205. The question of what co-operation there could be on foreign direct investment on an all-island basis needs to be answered. It is hard to figure out. Issues such as joint-infrastructure are easier: it is about electricity, roads, and such like. We should be doing things that make sense and in areas in which there are economies of scale and benefits. In marketing for investment, it is harder. I hope that I have adequately addressed the question.

1206. **The Chairman (Mr Wells):** Mr Beggs got in at the end last time, so I will ask him to come in early; Ms Gildernew and Mr McLaughlin will then act as a team; then Dr McDonnell can ask his question.

1207. **Mr McLaughlin:** We always act as a team.

1208. **Mr Beggs:** There is nothing I would disagree with in your presentation. You have hit the nail on the head. You said that there is a need for a university system that spends less on pure research and more on knowledge transfer. What has gone wrong? Why do they not see that rather than concentrate on their own little world? You indicated that there are skills shortages and a need for more industrial retraining in our colleges. Why are the needs of the economy being missed by Departments, universities and colleges and how might we best refocus them? I support the view that lower corporation tax would bring benefit, but the need to encourage R&D is more important. I cannot understand why colleges and universities do not have facilities to provide that. What practical assistance could be provided? Might there be a special fund or an R&D facility? How would you see that mechanism working for tomorrow's companies?

1209. **Mr Morrison:** I probably misled you a little. Universities should not spend less on pure research. Universities here do less blue-sky research than those in either the UK or in the Republic of Ireland. There needs to be more and better knowledge transfer, but universities are learning how to do it.

1210. QUBIS Ltd, for example, has been fantastically successful over the years, but it runs on fumes; it used to have £20,000 a year to spend, which is a joke. It is often a question of resources, resources, resources.

1211. **Dr McDonnell:** May I come in on that, Mr Chairman. How do we get money into QUBIS Ltd and UUTech Ltd? If the subgroup does nothing else, at least it could start providing answers to such questions.

1212. **Mr Morrison:** Alasdair, the question is: how do we get money? If we can get money, we can find ways of getting it into bodies such as QUBIS Ltd and UUTech Ltd.

1213. That raises several points. The nanotech initiative is a cross-cutting technology that could be up and running if we had the money. We made a bid to the UK for nanotech funding, but we failed. We know how to do it, as do Queen's University and the University of Ulster.

We can see ways of getting money into nanotech.

1214. Knowledge transfer is complex, and although universities are learning how to do it better, they will admit that they have a long way to go. It is not just a question of money; it is also a question of research and of figuring out what has economic potential. How can academics, whose main incentive is to write papers, consider economic potential? How do I get people involved who can actually run businesses? Academics, with a few notable exceptions, cannot.

1215. We must transfer knowledge from the bowels of the universities to people who are, first of all, venture capitalists who can get businesses started and then move those businesses to people who can run them. It is a complicated process, and nowhere in the world does it work really well — except in Massachusetts and in the Cambridge cluster. We are getting better, but we are well off the pace.

1216. You asked how we get more money into research. I would like to see more proof-of-concept money being available. Our proof-of-concept fund has been very successful, although it is limited by EU rules: we had to apply to the EU to be able to use it. However, it is a very small fund. Simple venture capital will not do it. Venture capitalists are commercial investors; they do not want to take enormous risks. They want to invest in things that are proven.

1217. The deficit is: pure research; knowledge transfer; and proof-of-concept money. That is the golden rule. If we could funnel more resources into them and get EU approval, we could make a difference.

1218. You asked about skills shortages and why there has not been more focus on retraining; however, over the past year or two a great deal of thought has gone into those areas. Certainly in my four years working with the Department for Employment and Learning I have seen a change in focus in that respect. Indeed, the Department had one of its regular liaison meetings yesterday with Invest Northern Ireland. We are working together on several initiatives

on training for sectors that are coming here, such as financial services and software development.

1219. The vocational side is beginning to pick up speed, but it needs to go faster. It has the same issue: resources. Everything requires money. You asked what we could spend the peace dividend on, if we got one, and that is one of the things into which we could put more resources. The Department for Employment and Learning knows how to do that.

1220. How do we help small firms to increase their R&D facilities? Queen's University and the University of Ulster do some specific outsourced R&D for small companies. There is probably not enough awareness or ambition in small companies to use their engineering departments to respond to enquiries such as: "I have an idea — can you make my product?" or: "My product doesn't work very well — can you fix it?" They do that, and do it rather well, but they are constrained by resources. If a company of 10 people puts two guys on R&D, it has lost 20% of its workforce. Resources and the use of outside consultants would go quite a long way, as would education.

1221. **The Chairman (Mr Wells):** Thank you. Are you happy enough, Mr Beggs?

1222. **Mr Beggs:** Yes.

1223. **The Chairman (Mr Wells):** We have two groups to go.

*12.45 pm*

1224. **Mr McLaughlin:** Hello again, gentlemen. You discussed the impediments, and I accept that the points that you raised demonstrate that your task is challenging. We accept Invest Northern Ireland's remit. The South's economy is performing strongly, but it is beginning to demonstrate characteristics of overheating, and that has implications for the labour market and for further inward investment. Does that not present both a challenge and an opportunity, when considering impediments? Should we also address the competition between Invest Northern Ireland, Enterprise Ireland and the Industrial Development Agency (IDA)?

1225. With regard to your advice on fiscal policy and corporation tax, the Northern Ireland Business Alliance and Invest Northern Ireland point out that the EC Directorate-General for Competition and the Treasury have demonstrated no willingness to go down the road of sub-regional tax regimes. Should we provide a wider range of options for tax credits and perhaps apply them with more creativity, imagination and flexibility?

1226. At virtually every meeting that I have with Leslie, he makes the point that tax rates offer incentives that often come close to what is being offered by our competitors. We need a step change. The subgroup could offer coherent advice to the Committee on the Preparation for Government that would reflect a common position. The Northern Ireland Business Alliance saying one thing and Invest Northern Ireland saying another would represent an own goal. How could tax credits make your task easier and assist us in regenerating the economy?

1227. **Mr Morrison:** I will take the last question first. Invest Northern Ireland does not have a different position from the Northern Ireland Business Alliance. Reducing headline tax rates would be of great benefit, but how practical would that be? There are issues in relation to the Treasury. If people put up brass plates here, the UK could lose tax revenues, and that is a major problem.

1228. The second problem appears to be EU law. Unless regions are economically and financially independent of their jurisdictions, which they generally are not, regions cannot reduce rates legally. That is why the Republic went from split rates to a rate of 12.5%.

1229. I am unsure how practical that would be, but it would have an enormous impact. I know that the Northern Ireland Business Alliance feels that it is better to get as much as possible. That is a tactical question, and I would rather not state an opinion on it. However, it would be helpful to have enhanced R&D tax credits, as well as other tax credits. They will not transform the economy in the way that a low headline corporate tax rate would, because they work differently.

1230. To get tax credits, one needs to spend money. When a low tax rate is in place, one does not spend as much money, so one tends to try to optimise taxable earnings by creating profitable companies. However, it does not work that way with tax credits. It is not all bad news, however, because tax credits incentivise innovation. You would probably end up with a more innovative economy, but not necessarily a more profitable one. However, we would hope that profitability would result from that, further down the road. Those measures work differently. The difference lies in how feasible the creation of a profitable economy is, and what tactics should be used to achieve it. Tax credits would not achieve that on their own; they must be allied to a package of grants and expertise. Many small companies find credits hard to understand.

1231. The uptake of existing SME tax credits is very low. Many small companies cannot get their heads round it. It is much easier for them to get a grant. Both those weapons should be in the armoury.

1232. I absolutely agree about overheating in Dublin: it is a great opportunity — not a challenge. Citibank is here for that reason. It has a large operation in Dublin and a redundant building, and one might ask why it did not expand into it. However, we convinced Citibank to come here, as it would be cheaper in the long run.

1233. A medium-sized call centre in the telecom business from the Republic has just opened in Armagh because it was more cost-effective to put it there than in Dublin. We have broadband and all that. We had to fight a battle to get it to come here as opposed to Limerick or somewhere else. Invest Northern Ireland has an office in Dublin, from where it fights for FDI. We have already got some FDI, and we hope to get more. The potential is there because of the overheating.

1234. We do not compete with Enterprise Ireland; we are fairly complementary. Enterprise Ireland has responsibility for Irish-owned companies. It is not like our local office network, which deals with small companies. It deals with Irish-owned companies, be they



domestic or overseas. We have co-operated on certain programmes, where sometimes they or we have good ones. We accept that we should mutually pinch or use each other's. Cross-border initiatives can sometimes be fruitful.

1235. The IDA and INI have the north-west technology zone, but it is very hard to find other areas on which to co-operate, other than trying to find ways for each organisation to get better, because we are in direct competition. IDA tried very hard to prevent Citibank coming to Northern Ireland — as it should. The question is whether we can collaborate and be more effective. I tried to answer that from Ms Ritchie's question, but we should be differentiated from IDA or we will lose out.

1236. I do not see the synergies in FDI. I can see synergies in areas such as trade, infrastructure and cross-border co-operation. I am not clear whether the border exists for economic purposes. If the main dynamic is travel-to-work areas — people living on one side and working on the other — the border is completely porous.

1237. The different currency is not significant, but there are different tax and jurisdictional systems, and all that those involve. It is very porous economically, with people moving back and forth. However, the question is what can be done to stimulate more business in and outside the island. They are both important, but stimulating business outside the island is far more important because the world is a much bigger marketplace.

1238. **Ms Gildernew:** Mr Morrison, you mentioned the external R&D capacity and its likely impact. Could Invest Northern Ireland bring outside R&D companies here to create links and network with the companies, especially in the SME sector? What can Invest Northern Ireland do to ensure that overseas investment will lead to sustainable employment opportunities? We are frustrated with companies coming in, staying for six or seven years and going.

1239. **Mr Morrison:** Companies will develop R&D if there are good people here. That is the bottom line. SAP, the German software evolution company — which is like the European version of Microsoft — is here, as is Microsoft.

SAP came because of Queen's University's grid computing capability, which is the next big thing in computing. Grid computing allows unused space on personal computers (PCs) all over the world to be used. It is quite complicated and mathematical.

1240. We have world-class expertise in such areas, which is why R&D companies come here. They are not interested in second best. We have had quite a lot of interest in the service sector, although it is more limited in other sectors, such as the biotech sector. The biotech sector in Northern Ireland is focused on people such as Allen McClay, Peter Fitzgerald and Paddy Johnston. It would be nice to get a few more. We have expertise, and we want to be able to build on that. Pharma in the Republic depends on tax: it is basically tax-driven.

1241. The answer is to focus on a number of small areas in which Northern Ireland has world-class expertise. The 18 centres of excellence that Invest Northern Ireland has set up in its first four years, nine in the universities and nine elsewhere, help to focus on those areas. Northern Ireland has enough, or even too many, such centres now. A region with a population of 1.7 million should not have 30 centres of excellence. Northern Ireland cannot be world class in that many areas, so we need to put more resources into the best centres and ensure that they deliver.

1242. Michelle, I have missed one of your questions. What was it?

1243. **Ms Gildernew:** How can overseas investment create sustainable employment?

1244. **Mr Morrison:** The record of companies coming and going is not that bad. Capital is mobile. Recent investment, certainly in the four years that I have been here, has been far more service-sector oriented. Northern Ireland will not attract large new manufacturing investments. There is a chance of attracting niche manufacturing investments in a few areas, such as electronics, in which Northern Ireland is particularly strong, with companies such as Seagate Technology, Caterpillar, NACCO Materials Handling (NI) Ltd, BE Aerospace,

which manufactures seats and composites for the aviation industry.

1245. We must move up the value curve. Northern Ireland will never be a cheap place. For example, the Indian call-centre company, ICICI OneSource, the most recent of the three Indian service companies to come to Northern Ireland, will create 400 jobs in Belfast and 600 jobs in Derry. The quality of those jobs is OK, but I would not have supported its coming here had Invest Northern Ireland not been convinced that it would move up the value chain and do increasingly more complicated value-added work. The company must do that, because India is cheaper. That type of company builds on existing intellectual, cultural and language skills, and takes advantage of being in this time zone. A company's decision to come here is not based purely on cost, although being careful with costs is unavoidable.

1246. Some of the types of businesses that have come here from overseas are also being developed domestically. A number of domestic companies are becoming increasingly involved in providing professional business and financial services. In the long term, Northern Ireland can compete in those areas and in a few niche manufacturing businesses.

1247. **Dr McDonnell:** Most of the issues that I had intended to raise have been covered, so in the interests of meeting the 1.00 pm deadline, I will ask no further questions.

1248. **Mr Neeson:** My silence is also to facilitate the Chairman's departure.

1249. **The Chairman (Mr Wells):** You have both earned brownie points that will be stored and used in the future.

1250. Thank you, Mr Morrison and Mr McAuley. Your presentation has been most helpful.

1251. We have five minutes to deal with three small items. We need to agree the draft press release.

1252. **The Committee Clerk:** The press releases that we have issued thus far have been extremely concise and have said little more than that the subgroup has taken evidence from

witnesses. The media always pick up on press releases that contain a few quotes, so I have taken some quotes from the presentations. I will read out the draft, and if the subgroup is content, I will issue it:

*"The sub-group had its third meeting today in Parliament Buildings, Stormont.*

*The sub-group heard presentations from the Strategic Investment Board and Invest Northern Ireland followed by question and answer sessions.*

*The sub-group agreed that it was important to invite Ministers to present evidence at the earliest opportunity."*

1253. It is important that that last sentence is included. It is not controversial.

1254. I have cleared the next paragraph with David Gavaghan:

*"David Gavaghan (SIB) advised the sub-group that Northern Ireland had for the first time used finance from the European Investment Bank to fund the £100m Roads package1. Mr. Gavaghan also advised the sub-group that one of its major projects, the Invest NI HQ had been completed on time in just 30 months using a local contractor.*

*In evidence to the sub-group Leslie Morrison (Invest NI) made a number of recommendations on actions that would make a significant contribution to an economic package, which would have a positive impact on economic regeneration."*

1255. The rest of the press release contains the same background information about the setting up of the subgroup, and so forth, as previous press releases. If the subgroup is content, we will issue it.

1256. **Mr Beggs:** Could you add a couple of comments about what was suggested?

1257. **The Committee Clerk:** If you keep in one or two comments, what do you leave out? It might raise certain issues. Those comments will come out in the evidence.

1258. **The Chairman (Mr Wells):** Dr Peter Gilleece, a senior researcher in the Assembly's Research and Information Directorate, is present,

and he has been following the proceedings. We must formally ask, or instruct, Peter to carry out some research on behalf of the subgroup. We must also agree a deadline. The 10 August has been suggested, which has created a few waves of concern, as it is a very tight deadline. The 18 August has also been suggested. However, I do not think that an 18 August deadline will give us enough time to compile the report.

*1.00 pm*

1259. **The Committee Clerk:** The subgroup has agreed to commission the research on education and skills, but a deadline has not been agreed. Members must decide on a date. It is a practical issue for Peter because he also services the Committee on the Preparation for Government. If members want that research to be included in the report, it will have to be submitted several days in advance.

1260. **The Chairman (Mr Wells):** Can another researcher service the Committee on the Preparation for Government so that Peter can be released? By comparison, the Committee on the Preparation for Government will not require as much research. Are there two researchers?

1261. **Dr Peter Gilleece:** We have already had a conversation about this issue. It would be excellent if I could be released from the Committee on the Preparation for Government so that I could devote my time to this subgroup.

1262. **The Chairman (Mr Wells):** Will that enable you to meet the 10 August deadline?

1263. **Dr Gilleece:** I will do my best. It may help if I could have the weekend after 10 August.

1264. **The Committee Clerk:** Would it help if I wrote to the Head of Research and Library Services, making that request on behalf of the subgroup?

1265. **Mr Beggs:** Would Monday 14 August be a better submission deadline?

1266. **Dr Gilleece:** A deadline of Monday 14 August would help.

1267. **The Committee Clerk:** The subgroup will be taking evidence from many witnesses. If my colleagues and I do not have clarity on the

emergent themes, it will be difficult for us to compile a report within the time frame. I strongly recommend that in the next week to 10 days we have a one-hour private session to examine the emergent themes. If you are content, Peter and I can pull those themes together in a paper. We will liaise with you on time frames.

1268. Our next meeting is on Tuesday 1 August 2006 at 10.00 am in Room 135.

1269. **The Chairman (Mr Wells):** I will be in the Chair.

*Adjourned at 1.02 pm.*





## Tuesday 1 August 2006

### Members:

The Chairman, Mr Francie Molloy  
The Chairman, Mr Jim Wells  
Dr Esmond Birnie  
Mr John Dallat  
Mr David Ford  
Ms Michelle Gildernew  
Mr Nelson McCausland  
Dr Alasdair McDonnell  
Mr Barry McElduff  
Mr David McNarry  
Mr Sean Neeson  
Mr Peter Weir

### Witnesses:

Mr John Simpson	} Economist
Mr Wilfie Hamilton	} Department of Enterprise, Trade and Investment
Dr Graeme Hutchinson	
Mr Stephen Quinn	
Mrs Ann McGregor	} Enterprise Northern Ireland
Mr Ken Nelson	
Dr Nicholas O'Shiel	

*The subgroup met at 10.07 am.*

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

1270. **The Chairman (Mr Wells):** The meeting is now open.

1271. **Mr McElduff:** I am replacing Mitchel McLaughlin.

1272. **The Chairman (Mr Wells):** Is there a second SDLP representative?

1273. **Mr Dallat:** Alasdair McDonnell is the second SDLP representative.

1274. **The Chairman (Mr Wells):** Are members content with the draft minutes of the meeting held on 27 July 2006?

1275. **Mr McNarry:** I must make an important phone call around 11.00 am. I am worried that the subgroup will become inquorate. I will be

absent for only five minutes, so perhaps we could adjourn or have a comfort break at that time.

1276. **Mr Weir:** Must you make the phone call at 11.00 am exactly or around 11.00 am?

1277. **Mr McNarry:** Around 11.00 am.

1278. **Mr Weir:** It may make sense to take a five-minute break between John Simpson's evidence and the session with the Department of Enterprise, Trade and Investment.

1279. **Mr McNarry:** May I have two minutes to make a call to say that I will phone back around 11.15 am?

1280. **The Chairman (Mr Wells):** Could a member of the Committee staff make the phone call on your behalf?

1281. The other Deputy Speaker has arrived, but unfortunately that does not affect the quorum. We are now off the record.

*The subgroup was suspended at 10.09 am.*

*On resuming —*

10.10 am

1282. **The Chairman (Mr Wells):** We are back on the record. Are members happy to agree the minutes?

*Members indicated assent.*

1283. There are several matters to consider. Among members' papers is a copy of a letter to the Secretary of State, which I signed. We are not awfully pleased with MPs who take all August off and are not available to meet us. I am glad to say that the MPs who are members of this subgroup have a different attitude. However, we have given the Secretary of State a very clear message as to what we feel he should do.

1284. We have also flagged up an issue that Mr McNarry raised, at this subgroup and at the Preparation for Government Committee, about the Secretary of State's making announcements that could cut across, contradict or cause difficulties to the subgroup. That letter has been sent, and members have copies for reference.

1285. I have also received a letter from the Northern Ireland Tourist Board (NITB) that indicates that, unfortunately, because of prior commitments, it will not be able to provide any oral evidence. However, it has agreed to submit a written presentation.

1286. **The Committee Clerk:** Mr Chairman, we hope that we can slot the NITB into the 10 August meeting. Mivan cannot appear before the subgroup because of international commitments but has agreed to provide written evidence. We hope that the NITB can fit into that slot, and the indications are that it will be able to do that.

1287. **The Chairman (Mr Wells):** Good. That meeting is delayed rather than cancelled.

1288. **Mr Weir:** Mr Chairman, it is fair enough to use the excuse that there is no one to give evidence, if that relates to an individual. If John Simpson, or whoever, cannot attend a meeting on a particular date, that is fair enough. The Northern Ireland Tourist Board is a large organisation, and it would not have been acceptable if it had said that there was no one at

all in the NITB who could come anywhere near the subgroup. That would not have been acceptable.

1289. **The Chairman (Mr Wells):** The NITB wanted a witness at the level of chief executive or chairman to come before the subgroup. The problem is that neither of those individuals were immediately available. We would accept a deputy chief executive, but the NITB took a different view on that.

1290. Papers have been tabled for information. As we receive written evidence, we will table it to members as quickly as possible. I hope that members will read the evidence as we proceed.

1291. The Hansard report of the 27 July meeting has been tabled. Members have already received the draft of that report. As usual, we expect members to let us know within 24 hours whether there are any difficulties. I wish to pay tribute to the Hansard staff, who are listening to this as I speak. They have — for this subgroup and for the Preparation for Government Committee — been turning reports around remarkably quickly, given the extra work that we have imposed on them during the summer holidays. We are extremely grateful for their diligence.

1292. I know that members have read the Hansard report avidly, and we have not received any corrections. Most of the report consisted of evidence from the Strategic Investment Board (SIB) and Invest Northern Ireland, so there is not much scope for controversy.

1293. **The Committee Clerk:** Mr Chairman, the only comments that we received were from InterTradeIreland, which was fairly innocuous stuff. Hansard has accepted a fair number of amendments. If witnesses said something on the tape, they said it. However, it is entirely non-controversial.

1294. **The Chairman (Mr Wells):** Did you mean Invest Northern Ireland?

1295. **The Committee Clerk:** No, InterTradeIreland.

1296. **The Chairman (Mr Wells):** I see. From the previous meeting?

1297. **The Committee Clerk:** Yes.

1298. **The Chairman (Mr Wells):** I have received my copy of the 27 July report. Have members received that?

1299. **Ms Gildernew:** Just now.

1300. **The Chairman (Mr Wells):** The same principle applies. Members should try to turn the transcript around in 24 hours. Again, it consists of witness sessions.

1301. **Mr McElduff:** Mr Chairman, is it the practice for attendees only to receive the Hansard reports, as distinct from those who are involved with the Preparation for Government Committee?

1302. **The Committee Clerk:** Only attendees can comment on the report.

1303. **The Chairman (Mr Wells):** All Hansard reports will be published on the Assembly website.

1304. **The Committee Clerk:** Once a report has been cleared, it will appear on the website.

1305. **The Chairman (Mr Wells):** It is interesting that when the reports were not published on the website and were leaked, the press devoured them with great interest. Now that the reports are available, the press could not care less. That is definitely a case of stolen apples tasting best. Everything we do will be in the public domain, once it has been passed for Hansard.

1306. We must make arrangements for the meeting on emerging themes. We did not get a chance to discuss that at the last meeting due to time constraints, and it has been scheduled for 3.30 pm on Thursday. I will chair that meeting, although I think that the other Chairman will also attend because we have been alternating the chairmanship. Confirmation of attendance has been received from some of the parties, including Dr Birnie and Mr McNarry from the Ulster Unionist Party Assembly Group. Mr Ford and Mr Neeson are not here, but I assume they are coming.

1307. **Mr Ford:** Pardon, Mr Chairman?

1308. **The Chairman (Mr Wells):** Oh, sorry. I have a fixed image of the Alliance party always sitting at the top of the table. I just cannot get that out of my head.

1309. **Mr Ford:** I am delighted that you see it in such a way, Mr Chairman.

1310. **The Chairman (Mr Wells):** I presume that Mr Neeson will be coming to that meeting.

1311. **Mr Ford:** One of us will attend, but I am not quite sure who it will be.

1312. **Ms Gildernew:** The meeting is at 3.30 pm?

1313. **The Chairman (Mr Wells):** It is at 3.30 pm on 3 August.

1314. **The Committee Clerk:** At the moment, eight members are on the list to attend the meeting. We need seven members for a quorum. I have David and Sean down to attend, as well as Alasdair McDonnell, John Dallat and Michelle Gildernew. Members cannot afford to drop out as that will mean that the meeting may have to be cancelled.

*10.15 am*

1315. **The Chairman (Mr Wells):** Peter Weir is to attend for the DUP. Do Sinn Féin or the DUP have a second nomination?

1316. **Mr McElduff:** I made it clear to the secretariat yesterday that I was going to attend.

1317. **The Chairman (Mr Wells):** All we need is the second DUP name.

1318. Is everyone happy enough? We need to meet for a good hour because we have not really had time to think, given the amount of material that we have been dealing with.

1319. The next issue is the revised work programme, which is at tabs 6 and 7 of the papers. It is very much a moving feast; it is constantly changing, with some witnesses being pulled out and others being slotted in. This is meeting number four in week commencing 31 July. The fifth meeting, which Mr Molloy will chair on Thursday 3 August, is with the Industrial Task Force, the Northern Ireland Committee of the Irish Congress of Trade Unions (NIC.ICTU) — a nifty little title — the Department of Education and the Department for Employment and Learning. Are members content to look at that and return to the issue of the time constraints later?

1320. John Simpson was extraordinarily helpful to the Enterprise, Trade and Investment Committee when it was in session, and he was perhaps one of our best expert witnesses. Do feel free to make maximum use of John's hour with the subgroup this morning, particularly as regards the big issues that have been raised to date, such as corporation tax, industrial derating and reduction in fuel duty. Feel free to take the opportunity to quiz him as he is extremely helpful in providing information on those subjects. I do not want to lead the questions, but it would be a pity to get bogged down in general discussion when someone of his ability is at our disposal.

1321. **The Committee Clerk:** One of the key issues for the subgroup in compiling its report is whether corporation tax should be reduced to a certain level or tax credits increased. It must explore the arguments for and against both approaches and try to find a balance. The subgroup can discover much from witnesses and should take advantage of the presence of people like John Simpson and the officials from the Department of Enterprise, Trade and Investment. Members should press them for answers to key questions — for example, why we do such and such and what the likely results would be.

1322. **The Chairman (Mr Wells):** This could be one of the most valuable evidence sessions in the entire process.

1323. Are members content? Unfortunately, we have had to leave this in the hands of the Clerks because there has been so much toing and froing, but I think that we have a reasonably good balance from the various sectors. We will have to leave it to the Committee staff to keep matters moving along.

1324. **Mr McElduff:** Mr Chairman, I would have liked to hear evidence from the Department of Education and Science in Dublin to find out how it has contributed to the skills strategy. If I could be assured that a research paper was being commissioned towards that end, that might suffice.

1325. **The Chairman (Mr Wells):** We will table that schedule. Do not be surprised if it is changed by the next meeting; that is simply the nature of the beast. However, I am content that we are getting a good spread of folk.

1326. **The Committee Clerk:** They are nearly all confirmed, apart from the Northern Ireland Tourist Board (NITB) on 10 August. The subgroup should be content that it has had in excess of a 95% response rate in a short time frame. Witnesses are keen to come.

1327. **Dr Birnie:** With NITB not coming, I suggest that we let the three groups that are coming on 10 August expand their presentations. In particular, the Economic Research Institute of Northern Ireland might need more than 45 minutes.

1328. **The Chairman (Mr Wells):** NITB is coming, just not in the original slot. We have shunted them into that slot.

1329. **Mr Dallat:** As a mere substitute, I have to relate to what Mr Weir said earlier. I cannot see how we can work these things out adequately without some input from tourism. If NITB is not available, perhaps someone from Tourism Ireland, based in Coleraine, might be a very good substitute.

1330. **The Chairman (Mr Wells):** There is a slight misunderstanding. NITB is not available on the date that we asked for. It is coming, but later than we had hoped. It is important to emphasise that. It looks certain that it is going to be there.

1331. **The Committee Clerk:** We are not absolutely certain at this stage, but we have been given an indication that it will be available on 10 August, so we hope to slot it in.

1332. **The Chairman (Mr Wells):** The subgroup is gaining momentum as we go on. It will be difficult, in my view and in that of the staff, to get it all done in time. We are considering writing to the Preparation for Government Committee to seek a one-week extension, which will be at its discretion. We need to do that formally. It could turn down the request. It will be practically impossible to get all this done in the time allocated.

1333. **Mr McNarry:** I propose that we do so. I think it is important.

1334. **The Chairman (Mr Wells):** Do we have a consensus?



*Members indicated assent.*

1335. **The Committee Clerk:** I will get a request to the Preparation for Government Committee tomorrow, seeking an extension until 25 August.

1336. **The Chairman (Mr Wells):** I am chairing that meeting, so I am writing to myself to ask for that extension.

1337. **Dr McDonnell:** Tell them that Mr McElduff has joined us and that he is keeping us back.

1338. **Mr McElduff:** I do not think so.

1339. **The Chairman (Mr Wells):** That completes the preliminaries. Is Mr Simpson here?

1340. **The Committee Clerk:** I have just been advised that Alan Clarke has confirmed 10 August for NITB.

1341. **The Chairman (Mr Wells):** We are making good progress. Ask Mr Simpson to come in. We have agreed that these meetings are open, and if your parties have whizz-kids on economic development or financial issues they are welcome to come in, listen and pass notes to members. People were killing themselves to get in before we made the meetings open, and now no one is turning up.

1342. **Mr McNarry:** How many questions are we allowed today?

1343. **The Chairman (Mr Wells):** Three, though last week one member managed to make that into six.

1344. **Mr McNarry:** That is why I ask. Three questions, and no rhetoric?

1345. **The Chairman (Mr Wells):** Keep it to three if you can. We want to maximise the opportunity of getting information from witnesses.

1346. **Mr McNarry:** I agree with you.

1347. **The Chairman (Mr Wells):** Mr Simpson, you are most welcome. You appeared before the Committee for Enterprise, Trade and Investment many times, and we found the information you provided invaluable. We are pleased that you could come here this morning at short notice to give evidence on this issue. We have indicated to you the three main issues on which we are

trying to gather information. I suggest that you make whatever opening comments you think necessary, and then I will throw it open for questions. We would like to take one hour for this session. You have been down this road many times, so I am sure you are experienced at giving evidence.

1348. **Mr John Simpson (Economist):** Thank you for the invitation. Were I being facetious, I would say that it was a good excuse for not going on holiday. Members have a copy of my paper, and may wish to read the headings as I review it.

1349. Let me try to set the scene. Inevitably, in a discussion of this kind, there is a tendency to pick on weaknesses or on comments on which one has a different view. We do not spend 50% of our time congratulating ourselves on the acceptable things. We tend to focus on things that we would like to change.

1350. Consequently, the discussion that I am likely to engender might, on reflection, appear more negative than positive. That is a natural bias when producing a set of questions relating to economic challenges. Inevitably, I am drawn to say that we are not tackling them very well. That is not to say that there are not issues on which, if I was to sit in an audience outside Northern Ireland, I would say: "Just a minute, take account of these good things as well as the critical ones."

1351. With that understanding between us I will briefly review the paper that I submitted. I do not need to enhance further the personal introduction. It is only there to let you know that I have had a misspent youth doing several things that occasionally come back to haunt me. Even when I recall the days in this Building when we argued about the Matthew plan, who was to say that 44 years later we would be sitting here discussing whether or not we got it right and asking: "Where are we now?" However, I am not going to dwell on the background.

1352. It was necessary to include a second section on the current state of the regional economy. Members will recognise the various symptoms that are readily picked on. By the standards of employment and, indeed, average lifestyles, we

are better off than we have been at any time in our lifetime. Judged by where we normally have been in comparison with regions in Great Britain, we have caught up a bit, but not a lot.

1353. Unemployment is now the lowest it has ever been in our lifetime. If we look around and say: “What features of that should we be careful about?”, the first thing that comes to mind is that we still have a significant amount of underemployment — the inactivity rate, as it is often described. It is partly a consequence of a higher proportion of the population living in rural areas. There will always be a higher inactivity rate where it is not so convenient for the second or third person in a family to get employment. The main occupation will determine where the breadwinning takes place.

1354. Where are we on the issues of employment, unemployment and living standards? The situation has been built and improved for all sorts of market reasons in ways that I now would consider fragile. The unemployment problem has not been solved to the extent that we need not worry about it any more. If unemployment were to re-emerge in western Europe on any significant scale, we could not expect to be the last area to be adversely influenced. It is fragile, and it is dependent on a great deal of employment in low-skill and low value-added occupations.

1355. In concluding my review of where the economy is now, I will talk about two other features, the first being migration. I first came across an estimate of the level of net inward migration in the past year from a reasonably reliable publication. It seems as though we may have had an inflow of about 14,000 people in one year. That is against a background in which, 25 or 30 years ago, we would have expected an annual net outflow of 4,000, 5,000 or 6,000 people a year.

10.30 am

1356. The Government are forecasting that the flow of people into Northern Ireland will be less than a couple of thousand a year, that that will fall further, and that we will then return to a small level of net outward migration. However, I do not agree with that forecast. The Government’s

prediction will have an important knock-on effect, as they will have to consider the economy over the next three to five years — for example, where the population will be, what jobs it will seek, what demands it will place on social infrastructure and housing. There are all sorts of knock-on effects, and they could be quite serious. However, we still have a GDP (gross domestic product), or GVA (gross value added), per head of 80% of the UK average, which is about 74% of the Republic’s average, and the Republic is now ahead of the UK average.

1357. Business profitability in Northern Ireland has improved, in a situation where a fragile economy is attracting inward migration for interesting reasons, but it is still not prospering at the level that we would like. There are examples of firms that are losing money and that are unlikely to survive another winter, but, in general, business profitability in the past four, five and six years has improved. The business community, however, would say that it has not improved enough.

1358. I added a cautionary note regarding the question on major impediments. It states:

*“Beware of any dramatic single solution to all impediments”.*

1359. There is no dramatically different solution waiting to be pulled off the shelf. Even if the policy made a big difference, and over time we could repay the costs, that could be deceptive. I will move on, but the relevance of that comes later.

1360. We have all grown up with conventional arguments about the impediments in Northern Ireland: it is a peripheral location with poor natural resources; we have extra transport costs; it is a small local marketplace on an island divided into two economies. However, those issues are less of an impediment than they were. Location and poor natural resources were fundamental features, but they are less significant now due to a knowledge-based western European economy and a marketplace that has better access to larger markets.

1361. It has been argued that the manufacturing sector is weak or fading away, but manufacturing output is not down. It continues to edge up, but

the level of employment in the manufacturing industry is down. The bad news is that people are losing jobs; the good news is that those who are still employed are producing more per person, so it cannot be all bad. We should not write off manufacturing as if it is going down the proverbial drain.

1362. It has been argued that we have a weak private sector. When people say that, they mean that there is not much inward investment in manufacturing, yet the private sector has been the source of the major expansion in employment in the past 10 years in services, in retailing and in wholesaling. The private sector has done more to expand employment in Northern Ireland in the past decade than the public sector. We have an overlarge public sector. Some 33% of people are employed in the public sector, compared to a GB average of around 23%. Those figures do not compare. Members' mathematics will allow them to wonder whether it is because 33% is too high, or 67% is too low. If we compare the proportions, the public sector seems large, because the private sector, relative to other areas, seems low.

1363. I shall provide one correction on the usual view of this matter, which surprised me. The number of people employed in the public sector in Northern Ireland as a proportion of the entire population, not just relative to employment, is, within a fraction of a decimal point, the same as that for Wales. That number is a little more than a fraction of a decimal point lower than that for Scotland. We may simply believe that we have too many public sector employees — and we need to think about that — but, sometimes, we get the perspective a little out of focus.

1364. We have a large public sector, which has an impact on the labour market. The public sector pays, on average, rather more than the private sector for the same skills, and that is a problem.

1365. We have, in many senses, a branch plant economy. We use those words almost as though they were derogatory. I do not mind having branch plants if they achieve what we want. In the manufacturing sector, we ask how much expenditure goes to research and development.

The answer is that that figure tends to be relatively low, and that is because we have production units, not research headquarters units. That makes it a harder battle. No one would decry the value of more research and development spending, innovation spending, and so on, but it is almost natural that that would be lower in a regional economy like ours.

1366. I turn to less conventional theses, which are often understated. If I had invented the phrase, I would say that the impact of political instability "has not gone away". However, you may recognise that someone beat me to it. Was that a reference to political instability?

1367. Another eminent figure described Northern Ireland as having an unsustainable economy. There is an argument that we are not seen as a conventional, progressive, modern, western European region, and we cannot get away from that. People tend to discuss how Northern Ireland compares with Cyprus, the Basque region, or even with the way in which Catalonia is changing. Those are sensible comparisons, and they highlight that the framework in which we operate is important.

1368. There are failures of delivery in public-sector administration, on which I shall make two points. The first concerns policy setting and delivery within the public sector. Obviously, but not solely, I wish to refer to town and country planning. I criticise not so much the regional development strategy, although it has vulnerable points, as the absence of a Belfast metropolitan area plan. The real significance of its absence concerns infrastructure plans and their delivery of electricity, water, waste water, roads, transport and ports.

1369. Members will have had different reactions to the announcement this week of the proposed £400 million to be spent on roads. If members liked it, they will have agreed that the right schemes were picked. If members disagreed, they will have thought that the wrong schemes were picked. However, I criticise the announcement on different grounds. I am interested in the way in which the strategic investment programme is evolving. I welcome the fact that it exists, but I have criticisms. If members read yesterday's

press statement, they would have seen the paragraph that stated:

*“The Government’s Investment Strategy envisages that this additional roads funding will be available to us towards the end of the 2015 period.”*

1370. Are we living in a society in which it takes 10 years to move from conception to delivery? Those who have followed the history of the Westlink upgrade would say that that is nothing new, as that is exactly what has happened to date. The Westlink upgrade that is being built will be inadequate for purpose, and one of the suggestions in my presentation will solve one of the knock-on problems.

1371. The delivery of a better economy requires a better idea of how the public sector should perform. The performance of the public sector has been inadequate on town and country planning, infrastructure planning, scale and standards of education and training, and urban regeneration. If Government Departments are criticised because they are failing to deliver, that means that there is a real debate, because adequate delivery in those areas is important.

1372. A slightly different failure of the public sector relates to public services. People in Northern Ireland accept second-rate standards of delivery. For example, the single energy market on the island will not be ready on time. How often do we hear that the original timetable has slipped in relation to the public sector in Northern Ireland? The business sector would not operate that way; it would say that if the timetable demanded completion by a certain date, it would try to deliver — unless it is rebuilding Wembley Stadium. There is too much emphasis on vision statements and not enough on operational delivery. There is no real debate about options, and sanctions are not applied when the public sector fails to deliver.

1373. Any new fiscal incentives would be welcomed, particularly by businesses that would have to pay less. Those who received their new rates demand in the last few days can join in a vote of sympathy with those of us whose rates will almost double. I do not need to talk about the North/South comparisons on fiscal issues,

such as company taxation and excise duties etc, because those are well known. There is a long history of searching for variations in fiscal policy. Few here will remember the 1962 debate on the Hall Report and the alleviation of National Insurance charges in Northern Ireland. I am looking around the table to find the guilty parties who can remember that.

1374. Suggestions have been made that have come to nothing. I shall not dwell on the one exception, but Esmond Birnie will know about it. The current topics for debate relate to whether corporation tax, industrial rating, domestic rates and water charges should be different. Everyone knows that the Treasury’s view is that those who expect parity in spending must expect parity in taxation according to their means, so that those with lower incomes pay less.

1375. What are the options? There must be a debate on fiscal incentives and an attempt to persuade the Treasury that that debate is meaningful. Let us take the Treasury as the starting point, so that people pay according to means and receive according to needs. To diverge from parity would result in the same debate as the one that has been taking place in Scotland. Are those who want the right to a lower rate of tax prepared to take a lower transfer through the Barnett formula? As far as I know, the Scots have not decided to exercise that right, and the argument continues.

1376. The third option is to go for a one-off time-limited exception and tell all relevant taxpayers that they will be beneficiaries. However, if it were decided that, from today and for the next two years, corporation tax would be 12·5%, the main beneficiaries in absolute terms would be the four Northern Ireland banks.

1377. The degree to which it would lead to extra investment is uncertain, and I will not put it any higher than that. Corporation tax at a rate of 12·5% would also attract the attention of the European Competition Authorities (ECA), but if we were strong enough about the issue, and the British Government were strong enough about it, it might be persuaded.



10.45 am

1378. We could have a one-off time-limited exception for all new businesses. The problem with that is in defining what is new. If I am told that I can have a tax holiday if I set up a new business, will I be prevented from closing my old business and setting up a new one around the corner? Of course, it is much more subtle than that. The alternative is to change the fiscal impact by saying that we will allow differences in spending. That idea has been floated, so you will all have heard of it. For tax purposes in Northern Ireland, businesses' marketing expenditure, training expenditure, research and development (R&D) expenditure and other development expenditure could be made tax-deductible from their profitability by a factor of three or four. If we make the figure big enough to work, it could be done.

1379. For the benefit of those who want to think laterally, my final point on fiscal incentives is that, in order for there to be the same fiscal treatment throughout this island, agreement would be needed on company and excise taxes being harmonised. If that agreement were reached, however, the Treasury would not stand idly by. It would make the Irish Sea and the North Channel into a fiscal frontier.

1380. I shall now speak about other measures that would contribute to economic regeneration. We can do much for ourselves. The reinvestment and reform initiative (RRI) has given scope for a stronger investment programme. Unfortunately, the Strategic Investment Board (SIB) is not delivering as effectively as I would like it to deliver. You suggest that a peace dividend could add to progress, but I would argue that that should not be used as a substitute for improved local performance.

1381. Therefore, what are the possible foci? Latin scholars will tell me whether there should be a double "i" in "foci" — although looking around the room, I do not think that the skills are in evidence. In your position, have you considered new institutional arrangements for major regeneration plans, led by the right institutions, in the cities of Belfast and Derry? That is high on my list of preferences.

1382. Have you considered extra provision for enhanced levels of skills, vocational training and higher advanced qualifications for up to several thousand more young people each year? Have you thought of the enhanced provision that is necessary for education in the New TSN areas? I have visited some primary schools recently, not 15 miles from here. I will not say to which board a particular school belongs, but it is well funded by the present system, has more applications for enrolment that it can cope with and has more than 600 pupils. The atmosphere and the end result at that school are everything that anyone would wish for. Not 15 miles away, I could take you to primary schools that receive the same funding but will never achieve the same results, because they operate in a milieu that does not allow it. Those schools tell me — and they would tell you — that, by the time that those children are five, six or seven years of age, their behavioural patterns are no longer appropriate for an educational environment. You may say that if schools receive the same funding per pupil, it should be left to the teachers, but I would disagree. Resources must be proportionate to the social need, and we are not doing that.

1383. We can look at extra communications investment, particularly for roads, on which an announcement was made yesterday.

1384. It is fascinating that we have a very poor roads infrastructure. Why? Because we have not given it enough priority. We have to improve our roads structure either by crossing the border, which we did not use to say; or by going to any of the other development areas in Britain. It is not good enough to have a roads system such as ours. Yet there are lobbyists who say that we spend too much on roads. Apart from investment in human beings, no infrastructure investment is more important than roads. Roads infrastructure investment will enhance our reputation elsewhere.

1385. We might have a new approach to the integration of urban and rural needs. I worry that there is something called "rural policy" that stands alone. I know no rural community that stands alone from its urban hinterland or vice versa. We need a much more integrated policy

for the many small areas that are more than 15 miles from an urban catchment area.

1386. We need stronger incentives to innovation, research and development and marketing.

1387. My conclusion is that there are challenges that can be met if we harness our local talent. The case for fiscal incentives can be sustained if a wide range of impediments is tackled constructively. Beware the argument that a tax change alone will boost our economy. There is no intrinsic reason that Northern Ireland should lag behind other regions. I am sorry, Mr Chairman, to have taken so long.

1388. **The Chairman (Mr Wells):** Thank you very much, Mr Simpson. I am not remotely surprised that your contribution was entirely on target and extremely interesting and helpful: that has been your track record in Assembly Committees. It seems as though every member of the subgroup wants to question you on your contribution. Can we make our questions sharp and snappy, folks? Time is running against us.

1389. **Mr Simpson:** Do nothing for a moment, Mr Chairman: my infrastructure has collapsed.

1390. **The Chairman (Mr Wells):** I see that you are referring to your hearing aid.

1391. **Mr Simpson:** It has come together again.

1392. **The Chairman (Mr Wells):** Can you hear us, Mr Simpson?

1393. **Mr Simpson:** Mm?

1394. **The Chairman (Mr Wells):** Can you — *[Laughter.]*

1395. **Mr Simpson:** When I worked for the Health Service I had a hearing aid, and you all knew that I had a hearing aid, because you could see it. When I began to travel to Brussels, the Germans asked me: “What is that ugly attachment?” They said that I should get one of the hearing aids that I have now. I had to pay for it.

1396. **Dr McDonnell:** Is Mr Simpson aware that there have perhaps been times when it was official to be slightly deaf?

1397. **The Chairman (Mr Wells):** Perhaps we can get a move on, folks. We will start with Mr McNarry, followed by Mr Weir, Dr Birnie, Ms

Gildernew and Mr Neeson. That covers all the parties. We will try to keep it as quick as possible.

1398. **Mr McNarry:** John, sometimes negativity can be a wake-up call, and I thank you for that, as there was much in what you said that wakened me up. I have three questions. What does the high rise in house prices along with the high increase in the repossession of homes say about our economy?

1399. If a mixed ability group of 15-year-olds asked you what sustainable employment they should consider, how would you answer? Can schools do more than they apparently do at present to help young people with decisions about their future employment?

1400. How important is tourism to our economy? How do you rate its performance? How could a devolved Government help to improve it?

1401. **Mr Simpson:** House prices are a *bête noire* of mine. Part of the reason for house prices in Northern Ireland getting out of line with those of neighbouring areas has been explained to me by builders and developers: the cost of new house building on greenfield sites has rocketed because so few are available. It is a beautiful example of the failure of the regional development strategy: it boasted that 60% of houses would be built on brownfield sites, but it is achieving 70%. That is not success; that is failure.

1402. We have a green and pleasant land. I am not inclined to the view that we should allow much more rural housing in isolated units; that would not necessarily be popular. However, I do realise that we are not short of space. We are trying to confine, particularly the Belfast community area, to a population that is lower than that to be housed. Do not be surprised when house prices do what they have done; it is Government policy to push up house prices here. Unfortunately the town planners do not accept that argument. My shorthand response for dealing with this is: “Send for Kate Barker.” Those of you who have read the ‘Barker Review of Housing Supply’ will see that she has brought a fresh mind to the subject.

1403. The second question was about 15-year-olds.

1404. **Mr McNarry:** John, what about the comparison of house prices and the increase in repossessions?

1405. **Mr Simpson:** The repossession rate is at its highest for several years. At the rate of 656 per quarter, this means there are 2,500 repossessions per year in a situation where there are around 35,000 housing transactions per year. Repossessions are on the high side, and this is where the planners do have a point. People expect to be able to afford houses from their income, but they bid too high and become overstretched. Therefore, it would not be appropriate to say that this is all the Government's fault — it is mainly the Government's fault.

1406. As regards 15-year-olds, you can never tell them what is best for them. However, a large proportion of 15-year-olds, particularly those in inner city areas, are treating the education system as something to be coped with rather than as an advantage.

1407. Every 15-year-old should be told to maximise his talents and go as far as he can. I fall out with those responsible for training arrangements in Northern Ireland when they say to me that there has to be adequate training so that there will be more skilled people to cope with an advancing economy. My question to them is: "Why are you so modest in your ambitions?" The education and training system is not for today's employers, it is for tomorrow's employers, and it is not only for employment that is within a stone's throw of where you go to school. Would you wish to deny anyone who grows up near you or me the right to the full education and training benefits he can absorb even if they take it and use it elsewhere, in places such as France, Bosnia or India?

1408. We have a system that is geared to the needs of today's employers. Let us just look around. I cannot answer the question in respect of individuals.

1409. As regards tourism, we do not deserve to have tourists because of the way our infrastructure has been geared up. How many members of the

subgroup have subscribed to and have applauded — as a magnificent development — the Titanic Signature Project for the Titanic Quarter? How many of you think that it will fulfil our ambitions so that tourist liners will tie up to the new berth that is being built and the new facilities that will be provided? The answer is that we have such modesty in our proposals and such slowness in their development that we will be celebrating the Titanic 150 years after it sank rather than 100 years after it sank.

1410. As regards the Giant's Causeway project — how long has it been since the facilities burned down?

1411. **The Chairman (Mr Wells):** It was in 1999.

1412. **Mr Simpson:** Have you seen the replacement? Is it not wonderful?

1413. **The Chairman (Mr Wells):** It is not there.  
*11.00 am*

1414. **Mr Simpson:** It is not there yet. Did it really take that long? Have you seen the draft plans for the Giant's Causeway in comparison to Glenveagh in Donegal or any other tourist area?

1415. You will smile at this: for my sins, I recently visited the scene of the Battle of Waterloo — no, not on the River Boyne — the Battle of Waterloo. A huge, superb site has been created to attract tourists. Why do we not look for role models for what we should be doing? Yes, we have natural assets, but we are not enhancing them.

1416. **Mr McNarry:** Hear, hear.

1417. **Mr Simpson:** If all the questions take as long to answer as that one, you will be here until lunchtime.

1418. **The Chairman (Mr Wells):** Yes, that is a good point.

1419. **Mr McNarry:** The questions did not take very long; the answers were the problem.  
*[Laughter.]*

1420. **Mr Weir:** Thank you for your presentation. It was very useful in not only identifying the issues but helping to put them into a degree of perspective.

1421. I wish to ask three questions. You mentioned high levels of economic inactivity as opposed to high levels of unemployment, which is mentioned quite often. All my questions are principally concerned with solutions to problems. First, what actions could the Government take or what changes in regime would lead to a reduction in economic inactivity?

1422. Secondly, I was struck by the slowness of public sector delivery. You mentioned roads as one example. I recently met the Minister of Education, who explained away last year's £69 million underspend by saying that £40 million of that figure was for capital projects. Instead of making some great excuse, the Department of Education — as is symptomatic of many Departments — was not processing its activities or contracts quickly enough to enable schools to be built. What can be done to improve slow public sector delivery?

1423. Thirdly, you mentioned yesterday's roads infrastructure announcement. Leaving aside whether a particular road should have been built, have the right broad structural priorities for roads been identified? If not, where should the focus be? Are stronger economic corridors required? Is the focus on too few single projects or should the overall roads infrastructure be built upon?

1424. I seek your advice on those three points.

1425. **Mr Simpson:** If we behaved more like other regions, around 6% more of the population would be in the labour market. In households of two or three people, some can choose to be inactive in the labour market. Part of the answer to your question is that the degree of imposed economic inactivity, as opposed to voluntary inactivity, is important.

1426. The short answer is that surveys suggest that a significant proportion, but not a majority, of those who are economically inactive would, given the right circumstances, seek to be in the labour market. By and large, those are people on second incomes. It used to be the case that a high proportion of those people would be single parents, for whom the mixture of benefits and their ability to work was loaded against them.

1427. What should the Government do about that? It is difficult to have a policy to encourage those who are inactive into the labour market unless the system handicaps them. Single parents were handicapped by their situation. There is a problem for rural households that are remote from urban areas, but I cannot go further than that.

1428. Your second question was about infrastructure timing. We must begin to say that, for the last x number of years in Northern Ireland politics, five major political parties have been in Opposition to the Government that is in charge. They have got off remarkably lightly and have not been criticised — or perhaps they have been criticised, but they have not heard it.

1429. The third question was about roads. Various appendices, with information on the roads network, were attached to yesterday's press statement. The strategy for roads infrastructure lacks coherence. The policy seems to be one of build them here, here, here and here. The important thing is that commercial and private users should be able to drive along the transport corridors at a decent speed.

1430. In some places, such as Newry and beyond, what are called "higher quality A1s" are being built; in other places, they are called "expressways", because each significant junction is covered by a flyover. What is wrong? Could it not be that people could commute from Newry to Belfast and from Coleraine to Derry on roads that are of the same standard as those from — dare one say it? — Dublin to the same polar points? I am not saying that the Republic does it better and that Northern Ireland should copy it. However, that is the standard that road users should be able to expect.

1431. Of course, odd bits of development are needed, and those members who travel to Belfast from the north of the Province will have noticed the biggest current development scheme. There is to be a Westlink/York Street flyover to provide a grade-separated junction at the last remaining part of the Westlink that has a traffic signal. That is going to be a complicated project. Those involved need to design the York Street junction so that the traffic can flow in numerous directions. This problem was



inevitable since the day on which the Westlink was conceived. Inevitably, a much worse problem will be created when the improvements to the Westlink go as far as Divis Street and stop. The motorway must stop at Divis Street because if it flowed on at those speeds, the York Street junction would not be able to cope. There is no coherence. I hope that I am agreeing with Mr Weir when I say that.

1432. **Mr Weir:** Yes.

1433. **The Chairman (Mr Wells):** Are you happy enough, Mr Weir.

1434. **Mr Weir:** Very much so.

1435. **Dr Birnie:** Over the past 50 years, we in Northern Ireland seem to have become good at producing lengthy economic strategies and analyses of problems — indeed, in your background paper, you refer to the part that you played in two such reports in the 1960s. However, the strategies and analyses do not seem to be fully implemented or adequately evaluated. Why is that? Secondly, the subgroup has taken evidence from a range of witnesses, and, on fiscal incentives, it is being torn in two directions. Some witnesses argued for the lower headline rate of corporation tax, while others argued for the higher tax credits that you mention in your helpful paper. As a professional economist, which do you think would have the greater impact on private sector investment?

1436. **Mr Simpson:** I shall answer your first question while I think about the answer to your second one. The easy answer to your first question is “Yes”. I remember when we were asked to write what became the ‘Task Forces for West Belfast and the Greater Shankill’ report. One of the councillors at the initial meeting said that his fear was that we would prepare a volume that would either sit heavily on a shelf or would be useful as a doorstop. I am still living with the consequences of that.

1437. The short answer is that there are a lot of people in the public sector who think that, once they have written a strategy paper or a vision paper, whether on general economic progress, innovation, R&D, or training, somebody else will deliver it. We have lost the challenge to

senior public servants to deliver policy as well as developing it. There are a lot of examples — I will not use any, in case it gets back to those concerned — of people who, faced with converting policy into operation, make it into a consultancy project. The consultants get called in. If you are going to be one of these high-grade civil servants and cannot convert policy into operational delivery, someone around you should be challenging you, and you should not be left there, if that is your weakness.

1438. Your other point was about fiscal systems. I daresay some of you will agree that the best recent public relations campaign in fiscal events has been the degree to which the Northern Ireland Manufacturing Focus Group has sent out its message. It is horribly flawed, but persuasive.

1439. **Mr McNarry:** Sounds like DUP policy.

1440. **Mr Simpson:** They are faced with a choice. Should we have lower company taxes? Would that be more effective than some of these other things? The short answer is that, as long as no one does anything else that is nasty, of the choice that they give I would prefer corporation tax to be lower. However, it is a hypothetical question, because that is not the choice that is open to us.

1441. I know that influence is being exerted on the Chancellor of the Exchequer to try to get him to take a softer view of these things. I was told two years ago to forget about it, as it would never happen. In more recent months I have been told that it might happen. Would you consider it a success if you got the Assembly up and running, with devolved responsibility for planning the economic future, and for a defined period were allowed, as a concession, to have a corporate tax rate of 10%, 12% or 14% — anything but 12.5%?

1442. **A Member:** The rate in the Republic.

1443. **Mr Simpson:** It would be difficult to do, but at the moment it is being held out — and this is what I was referring to when I said not to go for the single solution — as if it were the single solution. It is not. In fact, if it were given to us as a community, and we were not doing any of these other things, we would quickly be asking what had gone wrong.

1444. **The Chairman (Mr Wells):** That is very useful. I have been entranced by what you have said.

1445. **Mr Neeson:** John, you and I share an interest in energy policy, but I am not going to deal with that this morning. You represent Northern Ireland on the European Union's Economic and Social Committee —

1446. **Mr Simpson:** For another six weeks.

1447. **Mr Neeson:** What opportunities for, and threats to, the Northern Ireland economy do you see with the enlargement of the European Union? Conversely, with the development of the global economy, is Europe still as important as it has been?

1448. **Mr Simpson:** To the second question, the answer is “Yes”. The amount of trade in goods, services and people can only increase. If we do not take part in it, that will be to our disadvantage. If we do not develop a more articulate group of people who can speak several European languages, we will lose out. I am guilty myself, but it is a bit late for me to start.

1449. As for your first question, if you raise Northern Ireland issues at the Economic and Social Committee — and, I daresay, at the Committee of the Regions — they will listen politely, then yawn and tell you to go back home and sort it out for yourself. The Peace programme is there; you are not allowed to say “nearly unique”, so let us say it has been “unusual”. We have not exploited it to full advantage, but nonetheless it has been useful.

1450. I do not think that Europe will do any more than open up opportunities to us; it will not come along carrying a bag of goodies that will somehow solve the problems about which I have been trying to convince you. In fact, the problems that I have been talking about are within our own disposition. Therefore, we have got to be there.

*11.15 am*

1451. I am worried about the expansion of Europe. There are all sorts of signs about eastern Europe and concerns about what expansion is doing to the relocation of certain sectors of

industry and to labour migration. Members may have heard the discussion at the weekend about what will happen should Britain become the main immigration point for eastern European migrants who have an entitlement. A very difficult social situation could be created. Who would have thought that Northern Ireland would have been part of the receiving area? If you had told me 10 years ago that Latvians, Poles and Lithuanians would be in either Dungannon or Newry, I would have said that they had a lot more sense. However, they are there.

1452. **The Chairman (Mr Wells):** I will concentrate on those panellists who are sitting on my left, so Ms Gildernew may ask a question.

1453. **Ms Gildernew:** Mr Simpson, you are very welcome, and thank you for coming.

1454. Given that the Assembly and the institutions that were envisaged in the Good Friday Agreement are not functioning, to what extent is the lack of political stability hampering our economy?

1455. Your points about education were pertinent, given that a quarter of children here live in poverty. Your comment about behavioural patterns making young children no longer suitable for educational requirements was staggering. How much of that comes from the self-fulfilling prophecy of those communities that do not feel that they have the confidence to move away from such attitudes? How much of that is tied into an economy that has been described as dysfunctional?

1456. When I was on the Committee for Social Development, I heard a lot about parity legislation. However, sometimes it is like groundhog day; we have had this conversation with so many British Secretaries of State. Projects such as Sure Start and Home-Start receive mainstream funding in England, Scotland and Wales. We fund projects such as those differently. We need those kinds of projects to lift communities out of the depression in which they find themselves. We lag far behind England, Scotland and Wales on pretty much everything — university places, healthcare provision and roads. We are repeatedly told that we do not pay as much and that there has been a lack of investment in this

place over the past 30 years. It would be more realistic to say that that has been the case over the past 80 years. Our circumstances are unique, and we need to catch up.

1457. I would like to tease out how you think that the peace dividend could contribute to that and what you think about security budgets not being spent on infrastructure in areas that were hardest hit by the conflict.

1458. **Mr Simpson:** You started with the general point about political instability, and then moved on to education. I am talking to this audience, so you do not need me to say it, but people outside Northern Ireland think that we are a very odd group of people and that we have —

1459. **Mr Weir:** I noticed that you looked at me when you said that. *[Laughter.]*

1460. **Ms Gildernew:** I thought that that look was very well placed.

1461. **Dr McDonnell:** People can understand why Jim Wells is in the DUP, but nobody can understand why Peter and Nelson joined.

1462. **Mr Weir:** We cannot understand why Jim Wells is in the DUP.

1463. **Mr Simpson:** Chairman, do they treat you like this all the time?

1464. **The Chairman (Mr Wells):** Yes. It is because I am on the green wing of the DUP.

1465. **Dr McDonnell:** These johnny-come-latelys are uppity.

1466. **Mr Simpson:** We are not regarded as a settled, stable western European community, and that is a handicap. If a company were planning a major manufacturing investment — which is rare nowadays — and contemplating coming to Northern Ireland, it would ask how one could be sure that the country has settled. After all, there have been 30 or 34 years of trouble — more, if you want to take it from the Linenhall Street student sit-down, which I missed by a day. There is no getting away from that, and people sitting with you must encourage you to find answers to the questions that we are not discussing this morning.

1467. We must talk about educational priorities and motivation in areas of need, and I have mouthed that many times in recent years. I spent a morning with a group of school principals from the Shankill area in preparation for the other paper that came out recently. It would be wrong to say that those principals are demotivated, but they no longer expect to be dealing with young people who are motivated to achieve. The teachers in the classroom feel that they cannot remonstrate with wee Johnny — or, for neutrality, wee Seamus — because his da will come up to the school and tell the teacher to leave his son alone. A common complaint from teachers in the classroom is that they can no longer expect back-up with regard to their delivery mechanisms.

1468. One cannot get round that by saying that they have the same money per pupil as the affluent school down the road. That is not an answer. Those of you who have experience of education and library boards — they will be gone soon, will they not? — will know that the issue is there, and has been for a whole generation.

1469. I have every admiration for one or two of those principals. I did not think that those sorts of problems existed in primary schools. I thought that they existed only in secondary schools. However, the primary school principals told me that I did not need to go to secondary schools to see them — the problems set in at an earlier stage. It is unbelievably important that something be done about that. We put it heavily in the West Belfast and Shankill reports, and to the best of my knowledge it has not made a button of difference.

1470. **Mr McCausland:** I cannot argue with that.

1471. **Ms Gildernew:** Do you see the peace dividend, then, being spent not just on big capital projects but on investment in people?

1472. **Mr Simpson:** For the first time, Northern Ireland has sources of capital way beyond the imagination of those who were in Government here in the 1960s. If you had told them that they could borrow capital over 20 to 25 years or that they could opt for PFI, they would not have believed you. Their money had to come out of a conventional budget.

1473. The figures that you are criticising show that capital expenditure by Northern Ireland Departments has broken £1,000 million for the first time ever. I have been watching it for the past two or three years. It was slow to take off, but it has now taken off. We have proven to my satisfaction — and perhaps to yours — that the building industry has the capacity to build up this capital programme. The civil servants' initial answer was that the building industry would not do it; its throughput could not be increased by 50%. The short answer is that it was possible.

1474. The same thing happened in the Republic of Ireland — I was going to say in Dublin — where building output was increased by 50% and is still growing. In the Republic 60,000 houses are built a year; we are building 14,000 a year. Has it four times the population? What do you think? Spending on capital is important; but, ironically, it does not go down well with the Treasury and the Department of Finance and Personnel. I would like some of the peace dividend spent on staffing and professional input, not all on bricks and mortar.

1475. **The Chairman (Mr Wells):** Mr McElduff is not here, so I will move on to Dr McDonnell.

1476. **Dr McDonnell:** John, thank you very much. As the Chairman said, your presentation was electric, and it covered most bases.

1477. I am not much good at theoretical concepts, but I am interested in outcomes. I would like to focus briefly on whether there are opportunities in, and how they can be focused on, the areas of R&D, new technology and university pull-out. How do we get that right? It is half working — or quarter working — for us at the moment. My simple view is that unless one or two more flagships like Andor Technology are established, we will not break through. We can work on the economy in general terms, but it is the champions that make the difference.

1478. To go from the sublime to the ridiculous, from the new text of R&D to food, are there opportunities for us in food production?

1479. **Mr Simpson:** I will start with your point about R&D and flagships. The more companies like Andor Technology that we find the better. Nobody would object to that sort of “university spin-out into industry” structure. It is creating more and more tension, particularly in the main English universities — and perhaps the Scottish ones as well. We must exploit what is there.

1480. However, I would be a little bit modest because we have only two universities — some would say that we have three; forgive me, I am not being rude to the Open University. With such a large range of issues involved, those two universities cannot be the answer, nor can they be the equivalent of the University of Birmingham or the University of Warwick, so do not expect too much from them. On the other hand, do not leave such a development to happen of its own accord. It must be encouraged.

1481. The arrival of Prof Gregson at Queen's University has been interesting. He developed his expertise in university deployment into industrial development, R&D and science parks at the University of Southampton. He is a force worth having.

1482. Unfortunately, there was a period when the two universities played selfishly, one against the other, in this exercise. I would have thought that as new vice chancellors have been appointed at both the University of Ulster and Queen's University the time has come to encourage them to do a bit more. They should not be shy if the net result is that they take up alliances with some departments and universities outside Northern Ireland. This is a more complicated set of arrangements than simply finding the man involved in electrical engineering at Queen's University who can give his technology to a company such as Andor Technology. We must encourage it, and we must demonstrate success stories.

1483. What was your second point?

1484. **Dr McDonnell:** Do you think that the competition between the two universities is as intense as it was?

1485. **Mr Simpson:** I do not think that it will be.

1486. **Dr McDonnell:** Is that not maturing?



1487. **Mr Simpson:** Some sort of competition between academics — “I am better than you” — is no bad thing, but competition as to what will happen in which facility is a bit of a waste.

1488. **Dr McDonnell:** The other question was about food.

1489. **Mr Simpson:** I noted with interest the study on the food industry led by Dan Flinter.

1490. The scope does not seem to exist, or if it does, they have not found it. We are a commodity food producer. We work one step down the processing line. If you ask the dairy industry and the milk processors what more they can do to add value and gain an international market, they have great difficulty in telling you where their ambition lies. The dairy industry is under serious threat. Dairy farmers believe that they are getting very low prices at the moment, and they are right. The reasons for that are that partly due to European policy, which is partly offset by single farm payments, so that it is not entirely a one-way ticket.

*11.30 am*

1491. We need greater success in dairy farming and in red meat farming. During the hassle of recent years, the red meat industry did not lose money. It was never under the same threat as the dairy processors. It seems to me that there is scope for success in that sector. The old story that we were taught as children says that we are good at growing grass. In the next 10 years, as the climate changes, Scotland and Ireland — the whole of the island — may have the advantage of having some of the best grass-growing areas of Europe. We may become a good grass-growing area with a plentiful supply of rain. Did you ever think that you would hear that that was our advantage?

1492. **The Chairman (Mr Wells):** We will allocate another five minutes for this discussion. Mr McElduff is not back in his place, so Mr Dallat is next, then Mr McElduff and Mr Ford. I try to give every party a fair crack of the whip. This is fascinating stuff; I could sit here until midnight and still not be bored. However, the difficulty is that the Department is waiting to

come in. Can we try to get through this as quickly as possible?

1493. **Mr Dallat:** There is an argument that tax breaks and fiscal incentives are really a reward to existing businesses, rather than something that might encourage new initiatives. That applies particularly to small businesses. What advice would you give to a new Assembly to address that issue?

1494. **Mr Simpson:** The starting proposition is correct. The main benefit of a tax change normally applies to existing businesses, which are certainties. It will apply to people who are not there, provided they come. Will that make a difference so that more of them come? The short answer is that there will not be more of those businesses coming to Northern Ireland if the infrastructure, skills and other problems that are on the table are not solved. We have to solve those problems.

1495. As for small businesses, the tax system is already loaded so as to hit small firms more lightly. If the Assembly existed, you might want to consider how you could make that lighter still. I am not sure how you would do that. In theory, when you get round to reviewing rating policy as it applies to businesses — and I mean rating policy for all businesses, not just manufacturing — it might be within your discretion to take into account variables such as size and location. That is worth thinking about. The basic question that you have to answer is: if you want to abolish corporation tax — which will cost £200 million — on what will you not spend £200 million?

1496. Some people think that efficiency savings are easily made, but it is not so. It may be necessary to change the structure of Government, but that will not be because great efficiency savings have been made.

1497. **The Chairman (Mr Wells):** To keep within our time, I ask Mr Ford, Mr McElduff and Mr McCausland to restrict themselves to one question, and then Mr Simpson can finish by answering them.

1498. **Mr McElduff:** I am interested in your views on the education and skills strategy. You

said that it was about the needs of tomorrow's employers.

1499. **Mr Simpson:** As well as today's.

1500. **Mr McElduff:** In relation to the South, how has the education and skills strategy contributed to the success of the economy?

1501. **Mr Simpson:** Do you want me to stack that one?

1502. **The Chairman (Mr Wells):** Yes, and then Mr Ford and Mr McCausland.

1503. **Mr Ford:** You said that we do not deserve tourists. Is that the fault of the public sector or the private sector? Who should be addressing it?

1504. **Mr McCausland:** It was said earlier that there were issues around scale and speed of delivery in relation to major signature projects. How do we address that? Where does the problem lie, and how do we put it right?

1505. **Mr Simpson:** Questions two and three run together.

1506. With regard to Mr McElduff's question about the skills strategy, one of the models many of us have watched with interest has been the development of the regional institutes in the Republic. The young up-and-coming economist Garret Fitzgerald and I share the view that the regional institutes have made a significant impact. I recently heard Garret expound that argument to an audience of Northern businesspeople.

1507. We have been, and are, too slow. We now have a strategy paper for the further education (FE) colleges. I believe it is called 'FE means business'. How are we going to embody this? The number of FE colleges is to be reduced from 16 to six. Is that cause and effect? I do not follow. It may be that the six is desirable. Who is going to give the new momentum to the FE colleges? I am involved in a small way with the skills group, so I have to plead interest.

1508. The short answer is that the FE colleges still, to a large extent, determine for themselves what they offer. That cannot be right. It is almost as bad as the universities doing the same thing.

1509. **Mr Dallat:** Or the schools.

1510. **Mr Simpson:** The FE sector has chosen the six key vocational areas that the colleges should concentrate on. I have seen the list; it is impressive, and in roughly the right areas. One would not dispute it much. They told me that the six areas had been successful. I looked at the figures, and five of the six have not gone up. One has gone up quite significantly. That, for me, shows the degree to which there is no adequate challenge to make sure that improvements happen.

1511. Moving on to tourism, and whether to blame the public or the private sector: I listen to every major policy statement made by the Tourist Board. I read their documents carefully, and know to use the phrase "signature project". However, I do not have a feeling of coherence — that there is a group who are giving leadership.

1512. It so happened that we picked on the Giant's Causeway. I would also pick on the Titanic project. The one example that is under-exploited, but moving nonetheless, is the city of Derry, which has the potential to be drowned by tourists. It is a walled city that has developed some of its cultural institutions and buildings, such as the Fifth Province heritage centre. They have shown imagination.

1513. It is not simply a question of public sector versus private. Where the public sector is needed, are we encouraging it and doing it the right way?

1514. With regard to tourism and the Titanic Quarter, members should see the berth at which cruise ships tie up in Belfast harbour. Would you take your aged aunt to visit that berth? Not a chance! When tourists dock there, the first thing that they probably want to do is get on a bus and leave. That is not the way in which a tourism industry should be run. The blame lies with all the institutions, both public and private. We are allowing market forces to increase tourism, which is about right. However, market forces are not integrating public assets and policy with the private sector. I am not trying to make another million-pound capital gain for Billy Hastings or any other hotel owner.

1515. **The Chairman (Mr Wells):** Thank you for a fascinating presentation.

1516. **Mr Simpson:** Please do not tell the Department of Enterprise, Trade and Industry (DETI) that I was here.

1517. **The Chairman (Mr Wells):** I am sorry; we neglected to tell you that representatives from it slipped in about 40 minutes ago.

1518. **Mr Simpson:** Did they? Of all the dirty tricks!

1519. **The Chairman (Mr Wells):** You will receive a Hansard report of your presentation, which you can check. Once again, we appreciate all your help.

1520. We are running over time, but it has been justified. I can chair only the first two sessions, but Mr Molloy has agreed to chair the third, so I will slip out when DETI has finished giving its evidence.

1521. I welcome Wilfie Hamilton, Graeme Hutchinson and Stephen Quinn. Mr Quinn moved to DETI from the Department of the Environment (DOE), via the Department for Regional Development (DRD) — a less complex Department than the DOE, if I may say so. You will have received our terms of reference. As you saw with Mr Simpson, there will be an opening presentation and then there will be an opportunity for members to ask questions. That should last one hour. We are grateful to you for coming at such short notice to provide evidence to the subgroup.

1522. **Mr Stephen Quinn (Department of Enterprise, Trade and Investment):** Thank you for the invitation. Wilfie Hamilton is the deputy secretary on the policy side of the Department; and Graeme Hutchinson is the head of the economics division. We will address the three elements of the terms of reference, as requested. However, first, we thought that we would offer a high-level overview of the Northern Ireland economy, starting with slide 4 of the presentation.

1523. The slide shows some of the positive trends that we have observed. There have been improvements in economic growth, employment

and manufacturing output. The growth in employment and output in private services is particularly striking. That has resulted in some welcome convergence towards the UK average gross value added per capita. However, that figure should carry a health warning: it is heavily skewed by the performance of London, the south-east and the east of England, which are areas of high economic growth. If we were to remove that element from the UK average figures, Northern Ireland's performance would be seen in a more positive and realistic light.

1524. Similarly, in the Republic of Ireland, one assumes that levels of economic growth in greater Dublin are more rapid than in counties Leitrim, Roscommon, Donegal, and so forth.

*11.45 am*

1525. The bottom line is that Northern Ireland no longer sits at the very bottom of the UK regional economic league, although it is towards the bottom. Northern Ireland is now about third from the bottom, just above Wales and the north-east of England.

1526. The subgroup's terms of reference highlight the fact that difficulties and impediments to local economic growth exist. Slide 7 focuses on the relatively low productivity in the private sector. While the Department attaches particular importance to that issue, that is not a criticism of the private sector or an attempt to deflect attention away from the public sector.

1527. The main reason for low productivity is that Northern Ireland is not well represented in the highest-value-added sectors of the economy. I emphasise that point because some public debate on the Northern Ireland economy suggests that, if the politicians were to reach a political settlement and Ministers and Departments were to sort out public policy, everything would simply fall into place. The business sector has a dynamic role to play, which, coincidentally, is reflected in an article in today's 'News Letter' by Frank Bryan, Chairman of the Institute of Directors, where he balanced the three legs of the stool very well. Business also has a job to do.

1528. The problem with our economic structure is illustrated in slide 8; the slide is a little complicated, but the basic message is clear. Northern Ireland is under-represented in business services, in the finance and communications sectors, which, typically, deliver high-value-added and high productivity. Conversely, Northern Ireland is over-represented in construction, agriculture and public services, which is why the rate of economic growth and GDP per capita is not as high as we would like it to be.

1529. Slide 9 demonstrates another problem, which was mentioned by John Simpson. Northern Ireland has a disproportionately high level of economic inactivity in the working-age population. Indeed, we cannot even hide behind the UK average. When the UK is disaggregated into its constituent regions, Northern Ireland has, by some degree, the highest levels of economic inactivity. Not only does that impose significant costs on the economy through the social security system, but it represents a potential loss of productive capacity. Some people could contribute more actively to output, especially at a time when the labour market is tight. During John Simpson's evidence session, the subgroup touched on the fact that Northern Ireland imports foreign labour for tourism and the construction industry.

1530. The subgroup's terms of reference also refer to fiscal incentives being used to encourage foreign direct investment (FDI) and indigenous development. The key points are shown in slide 11. FDI firms in Northern Ireland have higher productivity rates than indigenous firms. That is not a criticism of indigenous firms or their employees: FDI firms are larger, invest more heavily in technology and have management practices that are more advanced by virtue of their size and sophistication.

1531. Also, when FDI firms come to Northern Ireland, they tend to operate in sectors with higher value added and which have the most going for them.

1532. Invest Northern Ireland (INI), which attracts criticism from time to time — and I

know that Leslie Morrison has been a witness for this subgroup — has been relatively successful in attracting FDI to Northern Ireland. That success is because INI seeks to do its job professionally and because Northern Ireland has been, and is still, permitted to offer slightly higher rates of support to FDI firms.

1533. As the subgroup will know, Northern Ireland and Invest Northern Ireland inevitably tend to suffer in comparison to the Republic of Ireland. However, the same could be said about virtually every region of the European Union. The Republic of Ireland has been uniquely successful in attracting foreign direct investment. The comparison between Northern Ireland and the Republic of Ireland is relevant but can be harsh given the differences between the two jurisdictions.

1534. The debate on fiscal incentives has focused largely, but not exclusively, on corporation tax and particularly on the comparison of the headline rate with the Republic of Ireland. It is worth noting that although the UK's headline rate of corporation tax is 30%, SMEs pay the 19% rate, and John Simpson hinted at that earlier. The vast majority, somewhere in excess of 70%, of firms indigenous to Northern Ireland fall into that category and therefore pay corporation tax at 19%. Looking at the headline rate comparison does not tell the full story. When effective rate comparisons and all relevant considerations are taken into account, the gap still advantages the Republic of Ireland. However, the gap is not as wide as when simply looking at the two headline corporation tax rates.

1535. R&D tax credits are already available throughout the United Kingdom. The Economic Development Forum (EDF) commissioned research on whether higher rates of tax credits would have a significantly positive impact on the Northern Ireland economy. It is fair to say that the results were interesting but not overwhelmingly positive. There is some evidence that small firms in particular are simply not attracted to the application process for tax credits, which they find slightly intimidating. There is, therefore, still a preference for grants over tax credits, even for R&D firms. It was,



therefore, not obvious that even if higher tax credits were available in Northern Ireland, they would have a major transformational impact on the economy. The Department of Finance and Personnel (DFP) is still in discussion with the Treasury on that matter. The research has been made available to DFP, and it is exploring the potential of tax credits with the Treasury.

1536. Slide 13 of the presentation relates to the third element of the subgroup's terms of reference: a positive economic package and how that might be delivered. I place particular emphasis on the second part of that sentence. This subgroup has already taken evidence from the Northern Ireland Business Alliance, is due to hear from the Industrial Task Force and has probed John Simpson on fiscal incentives etc. DETI has also been talking to those agencies, which are either collectively or individually represented on the Economic Development Forum.

1537. It is worth reflecting on the context in which an economic package would be proposed, if that is what the subgroup is going to do. First, to make an obvious point, Northern Ireland is part of a unified taxation and public expenditure system, with only local taxation subject to variation.

1538. Secondly, Northern Ireland public expenditure remains relatively high compared to the UK average. Our argument has always been, and will continue to be, that that reflects higher levels of social and economic need in Northern Ireland. Therefore, the higher level of per capita expenditure can be objectively justified.

1539. It is worth reminding ourselves, however, that we are no longer at the very bottom of the UK regional economic league; we are third from bottom. Those factors are likely to shape the UK Government's view — from a London perspective — of any proposals that are made.

1540. Finally, at the session at which Leslie Morrison gave evidence, Mitchel McLaughlin may have made the point that, if regional tax variations are being contemplated, there may be an EU state aid hurdle to surmount. I think that

there was a similar case in the Azores, but I am not intimate with the detail.

1541. I laboured those points a little, because when you read the third criterion in the subgroup's terms of reference, the issue is not only how a package might be structured but how it might be delivered. There is both a political test and a technical test to be met. You must clear a political hurdle with the UK Government when you argue that Northern Ireland should be in the unique position within the UK of being granted such a package. You might also need to look at technical issues. If variations in corporation-tax rates are granted, how do you stop people from relocating from one part of the UK to this part of the UK, simply to avoid tax?

1542. Assuming that those hurdles can be overcome, we would like to see the package constructed around the four key economic drivers that were identified in 'Economic Vision for Northern Ireland': innovation; enterprise; skills; and infrastructure. Members are obviously familiar with their importance. Therefore, the greatest benefit to the Northern Ireland regional economy would be for any package to be built explicitly around those four drivers.

1543. The final slide is a bit narrow, in that it focuses exclusively on DETI interests. As part of any wider package that might focus on the four drivers, DETI will promote high-quality investment through Invest Northern Ireland, improve telecommunications, develop the energy market and invest in tourism, particularly in product development. They are services that would be of some value.

1544. I just wish to emphasise that that is not the Department's final word on the subject, or even its most important word. If an economic package for Northern Ireland is to be developed, it should be broader than what is outlined in the last slide and should identify, for example, the components that relate to skills and economic infrastructure. The former falls more into DEL's remit and the latter more into DRD's remit.

1545. I have given a very broad and quick response to your terms of reference, Chairman. I hope that it has been of some help. We will do

our best to assist the subgroup further by answering its questions.

1546. **The Chairman (Mr Wells):** It is also a very well targeted response. The subgroup appreciates that you have homed in on its three criteria. Various members have asked to speak, but I will give priority to the left-hand side of the room, which asked the tail end of the questions to the previous witness.

1547. **Ms Gildernew:** I am not fixated with FDI. That may be due to the fact that I represent Fermanagh and South Tyrone, where we have not seen an awful lot of it. It is important that we see more support for indigenous companies that provide sustainable employment. Mr Quinn, you glossed over the fact that FDI does not tend to stick around for ever. That fact needs to be acknowledged.

1548. How are you engaging with other Departments in the North, such as the Department of Education and the Department for Employment and Learning, and with Departments in the South to try to turn around economic inactivity? The fact that we have the highest levels of economic inactivity is a damning indictment of us all. Some of that may be down to areas such as Strabane, which was considered an economic black spot, but there are many economically inactive people in areas where there is employment.

1549. The Strategic Investment Board's investment delivery framework states that one of its priorities is a society based on partnership, equality, inclusion, regional balance and mutual respect. To what extent does that factor into your work?

1550. Your tourism slide referred to investment in signature projects. Has the Ulster Canal made it onto your list of signature projects? As a cross-border infrastructure investment that will eventually link Coleraine with Limerick through our inland waterways, it is a huge project. What is your thinking on that?

*12.00 noon*

1551. **Mr Quinn:** I will kick off and my colleagues will come in as necessary. I would like to make a point about economic inactivity.

One of the reasons that Northern Ireland has a high number of economically inactive people is that many of our people are in full-time education. It is not all bad news. Nonetheless, I agree with you that it is a significant problem for us as a regional economy.

1552. **Ms Gildernew:** You also heard John Simpson speak about children in primaries 1, 2 and 3 who were already showing signs of being economically inactive. That needs to be addressed. We cannot gloss over the huge problems in our education system and in our communities that lead to such economic inactivity.

1553. **Mr Quinn:** You asked what we do to connect with other Departments. You probably realise that the Department for Employment and Learning has the policy lead in this issue and that it has its hands on most of the policy levers. The Department for Employment and Learning, Invest Northern Ireland and the Department of Enterprise, Trade and Investment have standing liaison meetings. At our meeting last week we considered the supply of people with information and communication technology (ICT) skills to the Northern Ireland labour market, although I realise that that may not be germane to your question. I am glad to say that we received a very positive, practical, problem-solving response from the Department for Employment and Learning.

1554. There is at least a mechanism to ensure that policy and service delivery connections exist across the board.

1555. **Mr Wilfie Hamilton (Department of Enterprise, Trade and Investment):** You are absolutely right to say that we need to do much better. So much of our economic inactivity is related to a lack of skills and education — many people do not seem to have the skills to get into the labour market. That is why the economic vision refers to going back to the primary education curriculum and building up from there. We need a coherent approach; if we do not have one, we will fail.

1556. Through measures such as exchanges between the Department of Enterprise, Trade and Investment, the Department of Education

and the Department for Employment and Learning, we have tried to build a sense of economic enterprise into the curriculum. That is our focus. As part of our work on North/South economic co-operation, we have examined the issue with the Department for Employment and Learning and the Department of Enterprise, Trade and Employment in Dublin. There are important lessons to be learnt, because there are serious skills shortages in our economy across the board, North and South.

1557. That is why economic inactivity is highlighted along with low productivity as being the two big curses that hold back the economy and why tackling economic inactivity is central to the economic vision. The economic vision centres on the work of several Departments, because we need a coherent approach.

1558. **Mr Quinn:** I have two quick points. Some of Invest Northern Ireland's programmes reach directly into schools. Invest Northern Ireland's annual business and corporate plans also set testing targets for locating investment in New TSN areas. At 50%, 60% or 70%, the targets are high. There has been, and continues to be, a significant attempt to ensure that investment is spread in a balanced way. Think back to last December, for instance, when the Secretary of State announced a substantial industrial investment in Derry, of more than £20 million in Seagate Technology (Ireland) Ltd.

1559. There has been an attempt to spread investment, but I take your point — recently a factory closed in Lisnaskea in your constituency. That is obviously a cause for concern.

1560. **Ms Gildernew:** What are your signature projects in tourism?

1561. **Mr Quinn:** The direct and candid answer to your question is that the Ulster Canal is not among the six listed signature projects; there would have to be a change of policy in the classification to include it.

1562. The Ulster Canal would involve a significant capital investment, which could be upwards of £60 million, perhaps even into three figures. That would be an extensive capital project, and even if the policy classification

were changed, there would still be the issue of budget affordability.

1563. **Mr Hamilton:** The Ulster Canal has been on the agenda for several years on a cross-departmental basis. The figure that I have seen was much higher than £60 million. It depends on how you approach the project — a start could be made and the project could be tackled on a modular basis. It is being talked about, but it has not been included in the tourism signature project.

1564. In spite of what John Simpson may have suggested earlier, the tourism programme is a genuine attempt to produce a coherent framework. We have said that Northern Ireland has not invested in its tourism product for a very long time, for obvious reasons. In situations where European funding has been available for projects, private promoters have not come forward, have withdrawn after having come forward, or have not met the timescales that they said they would meet because it is still a high-risk business. There is still a high degree of market failure. It is therefore important for us to promote tourism. However, the signature projects were a way of creating a ring of projects around Northern Ireland in order to make it attractive to the visitor, and they were developed as part of a coherent approach.

1565. **Dr Graeme Hutchinson (Department of Enterprise, Trade and Investment):** A point was made initially about competitiveness and foreign direct investment. If FDI is coming to Northern Ireland on the basis of cost, firms will be footloose and will move quickly when costs rise, which will be to our disadvantage.

1566. Evidence points to the fact that if companies are locating in Northern Ireland or in any other region with a good skills base and where they can tap into local supply chains, the embedment in the local regional economy is much stronger. That applies in situations where firms are locating not for costs, but for skills and other wider value-added purposes.

1567. **Ms Gildernew:** That is the reason for the impact on the textiles industry. Firms can find skills elsewhere if costs reduce on a global scale.

1568. **Mr McNarry:** You are very welcome, Mr Quinn. I found your overview of particular interest. Conforming to the Chairman's rule about three questions, I wish to raise a point of curiosity. In recent years, has a direct rule Minister ever asked you to prepare a response to similar issues such as those that this subgroup has put to you?

1569. **Mr Quinn:** As I only arrived at the Department in January, I am ill equipped to answer that question, which is perhaps a crafty way of passing it to Mr Hamilton.

1570. **Mr Hamilton:** Each time a Minister wishes to talk about a policy initiative or wishes to do something different, we have a situation such as this. Certainly, when it comes to budgetary responses, Ministers ask us for suggestions that we can put forward to the national budgetary debate. This situation is a very concerted form of that. The context is slightly different in that in this situation, there may be arguably a unique window of opportunity for politicians to come together and say, "We think that this would help Northern Ireland to make the transition from where we are now to where we want to be."

1571. **Mr McNarry:** I am conscious that this may be unique, but I would have thought that a Minister would be doing the obvious in addressing similar points. Therefore, in light of what Mr Hamilton has said, is it possible that the subgroup could see some papers on your responses to the Minister's questions similar to the ones we are asking? The reason that I ask that is that we rely on a Minister to bat for us in the Budget. I do not believe that direct rule Ministers do bat for us, but I am open to seeing the evidence that they have done so.

1572. Moving on from that, if a Minister were to have asked you to address the three issues, would you have given the same presentation that you have given to the Committee? This is a terrible presentation, and you have not backed it up. The arguments that would be valuable to this subgroup seem to be very weak.

1573. This subgroup is charged with reporting to the Preparation for Government Committee, which is likely to encourage an Assembly

debate as a result of that report. Is it possible — and I am sure that it is — for you to present some written arguments, particularly on terms of reference 2 and 3, that would helpfully contribute to the subgroup's report to the Committee? That would be valuable for any Assembly debate.

1574. Written arguments would assist the subgroup in making its report, which will be recognised and, it is hoped, adopted in potential negotiations between the parties, individually and perhaps collectively, and the Government. Those negotiations will particularly focus, as I am, on extracting an economic package that will benefit Northern Ireland.

1575. I would have hoped that you could have backed up your arguments. Your presentation addressed terms of reference 1 and 2 in relation to the economic package. I appreciate that you have only been with the Department for a short while, Mr Quinn, but your predecessors would have assisted Ministers in negotiating budget allocations for years. I would have hoped that your presentation would have reflected that and that you would have given the subgroup some idea of the arguments that departmental officials have made to Ministers.

1576. **The Chairman (Mr Wells):** I am having difficulty in identifying your question.

1577. **Mr McNarry:** The question is whether the Department can present arguments, particularly on terms of reference 2 and 3, that would be useful in extracting an economic package to benefit Northern Ireland.

1578. **Mr Quinn:** I do not want to duck the question simply because I arrived at the Department in January. Looking back over my longer career in the Northern Ireland Civil Service, when I worked in the Department of Finance and Personnel, I regarded it as part of my job, quite frankly, to extract moneys from the Treasury over and above the product of the Barnett formula. We were successful in that for years, so there was never any lack of willingness.

1579. The Peace programme benefited from 100% additionality from the European Union, including the co-funding element from the UK



Government, and the Chancellor's package of 1998 provided capital allowances, et cetera. I am afraid that I must take issue with Mr McNarry about there being a lack of enthusiasm.

1580. **Mr McNarry:** I did not suggest that there was a lack of enthusiasm; I do not see the arguments — that is what I am seeking.

1581. **Mr Quinn:** We are in a slightly awkward constitutional position, in that we work for Ministers, and you are asking for arguments that will be put to Ministers.

1582. **The Chairman (Mr Wells):** To be fair to the Department, it cannot be seen to be a cheerleader for a change in policy, which is what you are asking them to do, Mr McNarry.

1583. **Mr McNarry:** With due respect, I am asking the Department to present some evidence where a Minister has been the cheerleader for Northern Ireland in extracting finance and making arguments for Northern Ireland. I think that the public will support me when I say that there is no evidence of that, but, if there were, they would like to see it.

1584. **Mr Hamilton:** We normally deal with public expenditure through spending reviews. In that situation, Northern Ireland Ministers negotiate, as Stephen said, for the best deal possible for Northern Ireland. That is what we are talking about, and that is the context in which the Department works. We continually negotiate financial packages every year. That is part of the normal process and that is how it works everywhere — everybody is doing the same thing.

1585. As far as this case is concerned, when the Northern Ireland Business Alliance and the parties met the Department to talk about a package, it was a different scenario in that the package recognised the circumstances of Northern Ireland and what might be done to help Northern Ireland establish itself and go forward. The difference was that this was not the normal spending review process.

1586. The Secretary of State has said that he wants to hear the views of the political parties, and the Chancellor has offered to engage on the issues. That is where the slight difficulty lies for

the Department in constructing an agenda that is taken up with London. The Department is happy to assist the work of the subgroup in whatever way it can, but it would be slightly awkward for the Department to create the agenda.

1587. **Mr Quinn:** The subgroup has done the right thing by inviting the Northern Ireland Business Alliance, the Industrial Task Force and people such as John Simpson for their views, because they are in a position to give you advice, whereas we are constitutionally constrained. I am sorry about that, Mr McNarry; it is certainly not a lack of co-operation.

1588. **Mr McNarry:** I understand your position fully. However, if the subgroup could see some evidence of what the Minister asked when dealing with the same questions, it would be helpful in constructing a process for the future.

*12.15 pm*

1589. **Dr McDonnell:** I hope that I can be quick. I am returning to the question that I asked John Simpson, which concerned funding for R&D and the development of new technologies. I believe that value-added, high-wage jobs will come from the universities in those areas. Which Department is responsible for funding and promoting R&D? Is it DETI or DEL? Which Department is responsible for working with organisations such as QUBIS Ltd and UUTech Ltd? Does their funding come from DETI or DEL? In other words, where does the rubber hit the road, because I am deeply disappointed that Government are not investing in QUBIS Ltd or, to a lesser extent, in UUTech Ltd? They are starved of funding. Government can pay all the lip service they like to the need for more R&D, but those are the flagship R&D bodies operating at the cutting edge. If they are dying or withering or not working, nothing else will work.

1590. **Mr Quinn:** I agree absolutely that Northern Ireland could do with more companies such as Andor Technology Ltd. It is a flagship company, and DETI would like to see many more like it. It is worthwhile recording the point that business expenditure on R&D tends to have a more direct and positive impact on the regional economy than university R&D. That is not to

decry university R&D, but it tends to be further away from the market.

1591. **Dr McDonnell:** We quite agree with you.

1592. **Mr Quinn:** I made those two observations by way of background.

1593. **Mr Hamilton:** You are absolutely right to say that this is a rich area for change. Northern Ireland needs to do better. Every region in the world feels that it should be doing better, so the question is how can distinctive change be brought about in Northern Ireland. It goes back to what we said earlier about the need to be more coherent. It is all to do with how science and similar subjects are approached in schools and universities, and how university research is taken forward. Are there enough PhD students? Are there enough researchers in universities? How can that research be commercialised? How can things be improved? Is additional funding needed to make it possible to develop more companies such as Andor Technology Ltd?

1594. Funding is split between a number of sources. DETI and DEL have a role in it, but other Departments fund research also. For example, the Department of Health, Social Services and Public Safety funds research into health technology. I suspect that it would be easy to make a case for additional funding for R&D. Of course, there may be limits — it must be sensible funding. DETI is involved in the US/Ireland concordat for research, which is an important development. It is in its infancy. Where is it going to go?

1595. There is both a qualitative and quantitative dimension. Dr McDonnell is right to highlight the issue, and I suspect that if DETI were to bring forward new suggestions, research and funding would be an area on which we would want us to focus.

1596. **Mr Quinn:** Invest Northern Ireland's budget for innovation, which includes provision for R&D, is approximately £40 million. That might be an area where more could be done. However, realistic figures are in the tens of millions, not double or treble that. There is always the risk of money chasing projects, which can lead to compromised quality.

1597. **Mr Hamilton:** Changes such as those would be important to the R&D sector, where DETI has been spending approximately £9 million or £10 million on the Higher Education Innovation Fund (HEIF) and approximately £5 million on the Proof of Concept programme. Even if that were doubled, it would not be a huge amount of money, but it is hugely important in this context. As I say, it is all relative to public expenditure priorities.

1598. **Dr Hutchinson:** The problem is quite easy to understand. I concur that R&D and innovation are the most important drivers for value-added activity. The problem is that Northern Ireland has so few firms conducting R&D. The Department carries out an R&D survey and receives little more than 300 returns. That is the number of firms that are serious about R&D. We must widen the base and encourage those firms that are already carrying out R&D to do more. We are working with the Economic Development Forum, and collaboration seems to be an issue. Northern Ireland is an SME economy. We need to hook up with further education rather than higher education and try to get commercialisation of R&D to the marketplace.

1599. **Dr McDonnell:** If all those things were to be done, there is still the eye of the needle — that is, we are not investing in the narrow alleyway from university out to the street. QUBIS and UUTech are not high enough priorities. They are like the tails of the universities.

1600. **Mr Hamilton:** There is no doubt that funding is an issue. If funding were to be increased, we could probably do more across the board, not only in the Department of Enterprise, Trade and Investment. Pre-seed funding and such matters that are related to the early stages of a process are particularly tricky.

1601. **Dr McDonnell:** I am talking about core funding for QUBIS rather than funding per project. Does core funding come from DETI?

1602. **Mr Quinn:** Core funding for universities comes from the Department for Employment and Learning.

1603. **Dr Hutchinson:** Higher education R&D is higher in Northern Ireland than in other parts of the UK, and indeed Europe. Business expenditure on R&D is lower in Northern Ireland than anywhere else.

1604. **Mr Hamilton:** The economic vision wants the business community and the political parties to sit down with Government and tell us what we are doing well with skills or innovation, where the gaps are, and how those matters sit in relation to one another. Northern Ireland is a small region, and that is a key issue. If you had representatives from the two universities, from two or three Departments and two or three key individuals from the private sector, you could identify your policy gaps and take action. The fact that the region is small should be decisive in relation to our responsiveness.

1605. **Mr Ford:** I want to follow the R&D point slightly further. You have highlighted the low uptake of tax credits on R&D, which is a function of our SME economy. Whose duty is it to build networks that will promote collaboration and encourage small businesses? If we assume that there is not much footloose FDI floating around that is available to us — other witnesses have told us that we must grow our existing firms — one option must be to grow at the micro level.

1606. **Mr Quinn:** Invest Northern Ireland is the leading agent on that issue. R&D programmes such as Compete are designed to encourage the quantity and quality of R&D in Northern Ireland. It is an uphill struggle because of our SME structure. SMEs see R&D as a cost rather than an investment, and they are reluctant to become involved. Smaller firms are reluctant to engage in the bureaucracy and red tape of applying for a tax credit. Northern Ireland firms are more grant-oriented than tax-credit-oriented.

1607. **Mr Hamilton:** That consideration is not unique to Northern Ireland. It is a complex process. We tend to talk about R&D or innovation on that side of the spectrum. Michelle spoke about our indigenous businesses, and process innovation is hugely important. It may well be that we need to make

small companies work better, help them to change their processes and see market opportunities.

1608. Therefore it is important that we do both in the spectrum of innovation. Research and development and process innovation are necessary to make them better companies.

1609. **Mr Ford:** May I ask a further question, since I did so badly last time.

1610. You said that the employment structure, specifically in agriculture, is a low value added, but significant, section of Northern Ireland's economy. The advantages that we have in certain aspects of agriculture may be crucial in Europe in future — John Simpson highlighted our ability to turn rain into grass. Obviously there is the question of adding value through microfarm diversification, but significant work is also necessary to add value to agricultural produce at the macrolevel. Whose function is it to carry that through, and what ideas does the Department have?

1611. **Mr Quinn:** The interest in and locus of that subject cross departmental boundaries. Invest Northern Ireland and DETI have an interest in the food sector, as does the Department of Agriculture and Rural Development (DARD). Some time ago DETI and DARD set up the Food Strategy Implementation Partnership (FSIP), which has produced ideas about how best to develop the food sector. The Departments are thinking about those at the moment. However, improvements have been made in the meantime. There is a flow of support from Invest Northern Ireland to food sector companies in Northern Ireland.

1612. **Mr Ford:** Can we expect the strategy to be implemented soon?

1613. **Mr Quinn:** Yes. That was the bit of John's presentation that raised my blood pressure a wee bit.

1614. **Mr Hamilton:** A great deal of work has been done on the strategy. There is, of course, an organisational element to it, but many individual recommendations have been or are being implemented.

1615. **Mr Weir:** Mr McNarry mentioned the patchy performance of some direct rule Ministers. Does the lack of priority given to economic activity and development in Northern Ireland go deeper than those performances? I do not mean to criticise our devolved Ministers, but when direct rule Ministers or Northern Ireland Executive Ministers get additional money through a block grant or some other means, it is inevitable that healthcare, education and infrastructure proportionately become top priorities. I suspect that the same might happen under a new Executive. In the previous devolved Administration, DETI received a decreased percentage share of the Northern Ireland budget, principally because more money went elsewhere. In that case, will we have to give greater priority in our own minds to economic activity?

1616. In answering my questions, perhaps you could produce figures or graphs for us later rather than give on-the-spot answers now. You gave us the regional inactivity rates; however, if we wanted to compare Northern Ireland with other regions, it would be useful to have regional comparative statistics between working-age populations — who are an essential pool of people — as a percentage of the population as a whole. Do we have a larger ageing population than other areas to support or do we have a larger school-age population? Such statistics would be helpful, because they would give us a snapshot of the overall pressures.

1617. You gave figures on economic inactivity. The previous speaker mentioned a gap of about 6%. Sixty per cent of that gap comprises the high percentage of people who are on incapacity benefit.

1618. You have identified one of the other factors — proportionately higher numbers in full-time education — but have not given statistics for it. I do not expect it today, but can you provide an estimate of what the gap is? If 20% of the lack of skills base is because of full-time education, we will not be particularly worried, but I would appreciate the statistics.

*12.30 pm*

1619. You mentioned liaison with DEL. Partly provoked by John Simpson, I wonder to what

extent there is joined-up thinking and joined-up activity within the Government on economic matters. There is a tendency — or at least this is the impression that is given to the outside — for Government Departments to operate with a silo mentality, wary of too much contact with other Departments, because they do not want to appear to be empire building. However, there is a range of issues that have strong economic development impacts on other Departments. You mentioned that with regard to the skills base.

1620. John Simpson mentioned one other implication of that. He was critical of the roads announcement, on a broad level, because he did not see a co-ordinated economic approach in it. What level of input did DETI have into decisions, for instance, on the economic impact of regional infrastructure? Perhaps you could outline the levels of structured liaison and joined-up thinking on economic matters between Government Departments, outside ministerial level.

1621. **Mr Quinn:** I agree with your first and most general point. Many of you will have experience of budget management from the time of the Assembly. Health and education are massive numbers and massive weights, and if they are given priority it is very difficult to look after everything else. You are right.

1622. One consequence of that — whether it is attributable to direct rule or devolution — is that the proportion of the Northern Ireland total budget allocated to DETI was reduced. There was a particular impact on the Invest Northern Ireland budget, which was reduced by £40 million or £50 million. Alongside that was the concordat arrangement, which allows Invest Northern Ireland to come to DETI — and we then go to DFP, and they go to Ministers — to see if we can rectify or adjust the budget reallocation on an in-year basis.

1623. You are absolutely right; there may well need to be a positive strategic decision taken about the priority to be given to economic development. In service of this particular set of direct rule Ministers, DETI was one of the Departments that did not have to offer options for reductions in the last budget round. DETI



did not have to put its allocations at risk to the extent that some other Departments did.

1624. **Dr Hutchinson:** The point on inactivity is well made in terms of giving a breakdown to see what is causing the high levels of economic inactivity. We can give data on people receiving sickness benefits, disabled people, students, the proportion that are retired, and the proportion that are raising families and staying at home rather than going into the workforce. We can provide data for Northern Ireland vis-à-vis the UK as well.

1625. Northern Ireland's working-age population as a proportion of the total is higher than elsewhere in the UK, and that partly reflects the fact that we have got plenty of students flowing into the labour market. Therefore, the message about economic inactivity is not all bad: 25% of the economic inactivity is due to the fact that we have a higher proportion of students.

1626. **Mr Quinn:** With regard to economic co-ordination, John Simpson had something to say about the roads announcement. However, I look back three or four years to when the regional transportation strategy was being devised — that was during the time of the devolved Assembly. That was a heavily consulted strategy, and the political parties, Departments and the business stakeholders all had an opportunity to influence that.

1627. That set up the essential anatomy of Northern Ireland's roads programme. The investment strategy for Northern Ireland pushed the resources envelope out a bit for that, and some things got added in such as the dual carriageway between Derry and Dungiven. Yesterday the envelope may well have opened a little bit further. I noticed the mention of a bypass for Enniskillen, my home town.

1628. **Mr McNarry:** And Strangford was taken out.

1629. **Mr Quinn:** It is quite important to remember that these things are being dealt with within a pre-determined strategic framework. It is not a matter of making free-standing decisions.

1630. **Mr Hamilton:** In my view co-ordination has been better since the Assembly because it has been on genuine issues. Co-ordination for the sake of it does not work, but if it is genuine and with common cause it does work. Engagement between the Economic Development Forum (EDF), political parties, business leaders, various stakeholders and the Government, saying what works and what does not is hugely important. I do not think that stakeholders understand the nature of that. In a sense they have complete access to everything that the Government do just as we have access to what the private sector does.

1631. I understand what John Simpson was saying about strategies, people talking about what the strategies are to be, and all the focus being on creation. The focus around the vision is about moving away from creation and taking it on to actions. Through the EDF subgroups, groups led by external stakeholders will be working out the three or four things that they need to do on innovation in the next six months to make things better.

1632. Once those are done the groups can bank them and move on to the next lot. This is very much a rolling process around actions. Political parties attend every other meeting to keep them involved in the process. There is a fair degree of transparency and partnership in that, and that is because we want to make Northern Ireland responsive. The focus is not on some strategy that is sitting on a shelf. We are long past that; we need action.

1633. **Mr Dallat:** Leading on from the talk about co-ordination and so on, the disjointed way in which Committees worked was very obvious in the last Assembly. It was difficult to reference crosscutting issues. Only if you were on every Committee would you have discovered that everything was bogged down in the subject of literacy and numeracy. The Public Accounts Committee was bogged down in it as were the Department of Enterprise, Trade and Investment and others. There did not seem to be any clear mechanism to deal with it.

1634. Then there were more basic problems: the Department of Agriculture and Rural Development was heavily involved in promoting business in

rural areas while the Planning Service was killing it off. A local Assembly should have some mechanism to enable it to pick up on such issues and get to work on them quickly. Otherwise there will be no obvious advantage in having a regional Assembly.

1635. What help, materials or research we could have from officials on that point? Strategies and masterplans are fine, but until local politicians sit around a table and hammer them out —

1636. **Mr Hamilton:** That is the point. Strategies could have had a blunderbuss approach with forty or fifty things in them, all with the same priority level. We need to break through that. Taking the EDF innovation subgroup as an example; it is chaired by David Dobbin, and he is in the business community. David is looking across everything that is happening in innovation and wants to identify six things that must happen soon. We then have to put a named person against each of those things with responsibility for delivering them.

1637. Alongside that we have gone very public on research. As a result of the change and since the Assembly and Invest Northern Ireland, DETI is trying to be much more representative of the whole economy rather than just, for example, the sectors in which LEDU or the IDB operated. We did not obviously support all sectors. We are trying to commission research that is of genuine importance across the board. We are trawling on the research that we should do and terms of reference for it through the EDF. For example, we need to understand what is happening in manufacturing, and we need to understand how to move through private services.

1638. We are therefore trying to focus on an agenda. As you say, Mr Dallat, we must create the right agenda, one that will include all the items that stakeholders believe are important. For example, the Skills Strategy, which covers a very big and diverse area, is just one of the strategies that must be examined most closely in the next six months to see if progress is being made. We must do that across the board.

1639. **Mr Dallat:** Chairman, I am sorry for frustrating you, but I will be brief. The problem has been compounded by the number of

workers who have come to the Province and whose skills are totally mismatched to their jobs. Some of them have extremely good academic qualifications but are doing jobs that do not require such qualifications. That is certainly not benefiting the economy, so the problem has become a little bit more international.

1640. **The Chairman (Mr Wells):** Two qualified doctors from Slovenia are gutting fish in Kilkeel, so that gives some indication of the situation.

1641. Three members would like to ask questions. Mr McElduff was brought in at end of the last question-and-answer session, so I will allow him his two questions. However, I will ask Mr Neeson and Dr Birnie to do a double act — each of them can ask the Permanent Secretary one question. This is all good stuff and it is relevant, but we are running very tight against our deadline.

1642. **Mr McElduff:** Thank you, Chairman.

1643. First, I would like the departmental officials to comment on the extent and character of current North/South activity in economic development.

1644. Secondly, is there any real commitment to balanced regional development in economic development? Slide 11 of the presentation lists the number of inward investment projects secured in 2005-06, and the number of contestable FDI projects that came here in 2004-05. Of those projects, how many have been located in Counties Tyrone and Fermanagh?

1645. **Mr Quinn:** I will answer your question on North/South co-operation first, and then ask Mr Hamilton to elaborate. My experience is that North/South economic co-operation is already very extensive. One example is physical economic infrastructure; in particular, roads. The Roads Service and Louth County Council have a joint contract to build the Newry-Dundalk element of the Belfast-to-Dublin road. Thus a project will be undertaken if there is a clear business reason for it and if it will mutually benefit the two areas. A second example, of course, is the development of the City of Derry airport, which has been co-funded

by the Northern Ireland budget and the Republic of Ireland Government. Both projects are direct, concrete examples of active economic co-operation.

1646. A third example is the trade delegation to India, which was led by the Taoiseach and on which Northern Ireland firms were represented. The Secretary of State travelled to India subsequent to that visit and he repeated the offer, but it was just a little bit too soon after the Taoiseach's visit, so he was not able to get a positive response. Such activity, which enables people to extract direct positive business benefits from co-operation, is being carried out.

1647. I will ask Wilfie Hamilton to speak next; he deals with his counterparts in Dublin on the elaboration of North/South economic co-operation, under the auspices of the British-Irish Intergovernmental Council.

1648. **Mr Hamilton:** A huge amount of work is under way, even in new areas. The key, of course, is mutual benefit. There is absolutely no point in co-operation if it is not for mutual benefit. Irish colleagues would certainly agree with that and it lies at the heart of everything that we are doing. The British-Irish Intergovernmental Conference communiqué identified a number of areas in which Ministers have already agreed to take forward further co-operation. Stephen mentioned trade missions. It is sometimes hard for countries to undertake such missions on their own, so a joint visit is often more economically credible and viable. We have discussed sharing offices in countries overseas where Northern Ireland has no representation: Northern Ireland business people could go to such countries and use the Irish facilities. Other marketing aspects have also been considered. The proposals identified in the communiqué are really only the first fruits of that work. The idea is to work towards the publication of a full report in October.

1649. In addition to an overseeing group comprising officials from both jurisdictions, there are seven businesspeople, including the two joint chairpersons of the North/South Round Table, the two joint chairpersons of the Confederation of British Industry/Irish Business

and Employers' Confederation Joint Business Council, and the chairperson and deputy chairperson of InterTradeIreland. Sir George Quigley is also on that committee.

1650. In this respect, we encounter some of the difficulties that we discussed with Mr McNarry. Whereas officials and agencies can look at all the things we do, there may be issues that the business community wants to look at but which lie outside our remit, because they are reserved matters or whatever. Consultants have been appointed to help with the final report in October. The areas outlined are in the communiqué from the last BIIC. We are working towards a fuller report in October, but it is extensive.

*12.45 pm*

1651. **Mr Quinn:** May I pick up on Mr McElduff's regional development point? I do not know the answer to his question about Fermanagh and Tyrone, but we will ask Invest Northern Ireland whether they can advise us on that. To generalise, and it is a point that I made earlier, the Invest Northern Ireland business plan targets include a commitment to put a high proportion of industrial investments in New TSN areas. Those targets are routinely hit. I do not want to anticipate the answer on Fermanagh and Tyrone, but I doubt if it will be as impressive as the answer might have been had you asked about Derry or somewhere else.

1652. **Mr Hamilton:** By and large, businessmen have to want to invest. You cannot deal with them if they do not want to invest there.

1653. **The Chairman (Mr Wells):** Finally, a question each from Dr Birnie and Mr Neeson.

1654. **Dr Birnie:** On the issue of tax credits versus corporation tax, you mentioned some research on low uptake among small firms. What ongoing or additional research are you doing on this? It is a crucial question. Are you confident that private sector investment will be responsive to these incentives? There has long been a debate as to whether businesses here are out to maximise profits, or whether they stop growing when they reach a target profit. If the latter, they will not respond readily to a change in their net profitability.

1655. **Mr Neeson:** It is apparent this morning that there are too many Government Departments in Northern Ireland. That is not a criticism of co-operation between you and the other Departments.

1656. I want to deal with fiscal incentives. For a long time we have been trying to deal with the grant culture; is that still an issue, and to what extent have other major incentives replaced that?

1657. **Dr Hutchinson:** The research found that the prospect of tax credits was having limited impact on increasing levels of R&D. That is only one element of the research; we are completing other research directly on FDI. We are looking at modelling the impact on the economy of creating 3,000 high-quality jobs per annum until 2015. We are forecasting where those jobs should be located and the impact on wages and on wider productivity. A wider FDI research project looks at the changing nature of FDI. It is not just manufacturing, it is becoming more orientated towards the service sector, which is not capital intensive. So there are issues for the Government support package for non-capital-intensive FDI.

1658. Dr Birnie's other question on enterprise is critically important. Northern Ireland has low rates of business start-up, and low rates of business growth. There seems to be a ceiling for business growth. They service the local economy, but do not look for foreign markets to export and penetrate. We are looking at the reasons for that and what can be done by Government to make businesses grow more.

1659. **Mr Quinn:** A PricewaterhouseCoopers (PWC) report, which was reported in one of the local papers today, made exactly that point. Northern Ireland firms tend to regard themselves as mature when others would say that there was still potential room for growth, so they may well settle for certain levels of productivity and profitability.

1660. Mr Neeson's point about too many Departments echoes the words of the Secretary of State in the middle of July; to paraphrase him, there is unfinished business after the review of public administration (RPA), and the effects of the RPA will have implications for the

departmental structure. Ministers will start to work their way through that as we go forward.

1661. **Mr Hamilton:** The grant situation has changed dramatically, if we look at the average interventions and the range available. I suspect, however, that some would say that there is unfinished business; that there is still too much of that in Northern Ireland — people wanting to do something only if they get a grant for it.

1662. Grants may well be necessary, and that is why we fought to have continued access to regional aid, which we were successful in securing until 2013. The key is that they must be the right grants in the right sectors for the right businesses. There is no point in getting just any investment. It must address what we need, add value in the right sectors, build clusters, or whatever.

1663. We have also been pressing Invest Northern Ireland to diversify the range of products that it offers, to take more loans, and to take more equity. INI has told us that it would rather take a portfolio approach, and be able to look at investments across a range of activities. There are obvious difficulties with that because the public sector quite properly expects every single investment to work. Invest Northern Ireland would like to have dialogue about that to see if there was an approach that was more in line with our needs.

1664. There is no easy answer to Sean Neeson's query. A great deal more needs to be done to help companies to help themselves and to internationalise, including export trade. We are making efforts to do more in that direction, again with our colleagues in the South, who face the same sorts of problems in many areas.

1665. **The Chairman (Mr Wells):** Ladies and gentlemen, thank you. Having listened to the complexities of Mr Quinn's comprehensive list, I should withdraw my comment that this matter is less complex than for DoE or DRD. It is clearly a complex and difficult Department to run.

1666. Mr Dallat has to be away for 1.30 pm. Is everyone else available to complete the third session? Does anyone have any pressing engagements?



1667. **Mr McNarry:** I have a problem.

1668. **The Chairman (Mr Wells):** I wanted to make sure that we had at least seven members left.

1669. **Mr Weir:** Could we finish at 1.30 pm?

1670. **The Chairman (Mr Wells):** It will more likely be 1.45 pm.

1671. **Mr McElduff:** The Sinn Féin commitment is to the end.

1672. **Mr McNarry:** To the end of what, Barry?

1673. **Dr McDonnell:** You are just new, and you are a troublemaker. *[Laughter.]*

1674. **The Chairman (Mr Wells):** It looks as though we will be OK.

1675. **Mr Weir:** Is David Ford coming back?

1676. **The Chairman (Mr Wells):** No, he is not.

1677. **Mr Quinn:** Before we conclude, I would like to leave you with a brief postscript. I have known John Simpson for many years, and I love him like a brother. *[Laughter.]*

1678. **The Chairman (Mr Wells):** But —

1679. **Mr Quinn:** He made a point about implementing strategies, and I agree with that. I have worked in several Northern Ireland Departments, and I am aware of the physical development that has taken place in this region in places such as Strabane, Limavady, the Comber and the Toome by-passes, on the Belfast to Dublin road and on the Westlink. There has been an explosion of investment in water and sewerage over the past two or three years, most if it, of course, resource-driven.

1680. Coming back to DETI's remit, the fact that Northern Ireland led the UK and perhaps even Europe in achieving 100% broadband access is an implementation achievement.

1681. I take John's point that it has taken too long to get the visitor's centre at the Giant's Causeway moving, but what got it moving was the personal commitment and endeavour of a senior civil servant. That person is not represented in this room this morning, so I am not claiming credit for it myself, but the Civil Service and

Departments have some implementation achievements to point to.

1682. **Mr Hamilton:** Those of you around the table who are former members of the Committee for Enterprise, Trade and Investment will know how difficult that was.

1683. **The Chairman (Mr Wells):** We remember it well.

1684. **The Committee Clerk:** You have undertaken to provide information on businesses in Fermanagh and Tyrone and on the demographics of inactivity rates and verification rates. You are also conducting research on the economic impact of FDI in different regions and on tax credits versus corporation tax. The subgroup would welcome an insight into that, within the time frame, if possible.

1685. **Mr Hamilton:** We should have a chat about that, but we could drown you with paper.

1686. **Mr Quinn:** We will take that request away and meet again to discuss it.

1687. **The Chairman (Mr Wells):** Thank you, gentlemen. We are grateful for that useful presentation.

*(The Chairman (Mr Molloy) in the Chair.)*

1688. **The Chairman (Mr Molloy):** Good afternoon. I welcome Enterprise Northern Ireland (ENI) and thank you for attending at such short notice. After your short presentation, members will ask questions.

1689. **Mrs Ann McGregor (Enterprise Northern Ireland):** I am the chief executive of ENI, and I have been with the organisation since its formation in 2000. Ken Nelson is the chairman, and he is also chief executive of LEDCOM, which is our local enterprise agency in Larne. Dr Nicholas O'Shiel is the vice-chairman, and he heads our policy group. He is also chief executive of Omagh Enterprise Co Ltd. I will provide a brief background to ENI and then talk about the important issues for the Northern Ireland economy.

1690. ENI is an economic development agency. We focus on entrepreneurship, business start and business development across all sectors, and act as an umbrella organisation for 32

members. We lobby on their behalf and act as a policy voice for those agencies and for small businesses. There are over 5,000 tenants in enterprise agencies. Our objectives are to develop a cohesive organisation across Northern Ireland, delivering high-quality consistent services to small businesses. We also want to ensure that we can sustain that service at a local level.

1691. ENI's role is to increase the business birth rate. Northern Ireland has the second-lowest business birth rate in Europe, and that is a high priority. We want to sustain and develop those locally focused businesses that are developed through the sector.

1692. We welcome the opportunity to contribute to the work of the subgroup. We will comment on all elements of your terms of reference, but the Northern Ireland economy is our key area of expertise and development, so we will probably focus most on it, if that is OK.

1693. As I said earlier, our network consists of 32 independent enterprise agencies, and we are led by 330 voluntary directors, along with key influencers from local communities. Many representatives around this table have had interactions with enterprise agencies in the past as well.

*1.00 pm*

1694. Enterprise Northern Ireland has a network of 200 staff, and all of its business advisers are independently professionally accredited, and have expertise in small business development. We have 2 million sq ft of property, including training and IT suites so that we can deliver a service at the front door. Local enterprise agencies are not core funded. Enterprise Northern Ireland pays for its own activities, and it also tenders for public service contracts and is paid on an output basis. Its funding does not come from the public purse as such, although much of its funding comes from Government Departments such as Invest Northern Ireland.

1695. Enterprise Northern Ireland is the main mechanism for support at a local level. We work closely with Invest Northern Ireland, but we have an independent view and a specific focus on micro businesses. As well as representing

that sector, we deliver programmes such as the Start a Business programme, which involves Northern Ireland-wide access to start-up support.

1696. Enterprise Northern Ireland runs the Tradelinks and MicroTrade programmes, which we run on a cross-border and all-island basis. The MicroTrade programme runs in partnership with InterTradeIreland and the city and county enterprise boards, where we try to encourage cross-border linkages and trade.

1697. The Tradelinks programme is more significant, supporting 600 small businesses to trade on an all-island basis, to increase their capacity and to grow as micro businesses. There is no Northern Ireland-wide programme to support existing micro businesses, so we are doing it on an ad hoc basis through those other programmes.

1698. Enterprise Northern Ireland also has a loan fund and a social entrepreneurship programme. I will not go into the details of each of those programmes. We are also working to help micro businesses trade on an international basis through a trade bridge programme supported by OFMDFM.

1699. Enterprise Northern Ireland's key area of success over the past few years has been the Start a Business programme, which has supported, through funding from Invest Northern Ireland and local councils, the delivery of 8,520 businesses in a four-year period, compared to its original target of 6,270. That is due to the centralised cohesiveness of the network, good systems and processes and good management information systems.

1700. More than 36,000 people have participated in that programme, so if they did not go on to start a business, they did at least increase their capacity through training and networking with other individuals.

1701. The programme has been reviewed independently and has come across as highly valued by participants. We believe that there should be an ongoing commitment to volume start-up, because, even taking dead weight into account — where people say that they would have started anyway — 2,000 new businesses

have started with the creation of about 2,000 additional jobs. The impact on the community has been a turnover of between £70 million and £113 million. Each of those micro businesses created in the local community has an annual turnover of at least £60,000, and they are important.

1702. Enterprise Northern Ireland is not saying that the Start a Business programme is perfect. It could be changed and developed to make it more flexible. At the minute, it is a standard programme with the same product offered to everyone. It could be redesigned to include more on exploring enterprise and developing businesses. Help such as grants could be skewed towards those who live in areas of neighbourhood renewal or in targeting social need areas. However, all in all, it is an important programme.

1703. Enterprise Northern Ireland's concern about the Northern Ireland economy is the fact that Invest Northern Ireland has a major focus on inward investment and support for technology-based business. That is laudable and important, but we do not believe that that provides a total solution to the Northern Ireland economy in terms of employability, peripheral areas or disadvantaged communities.

1704. ENI is concerned that neither DETI nor Invest Northern Ireland have statutory responsibility for locally focused businesses. In an environment of budget cuts, it seems natural that this area may be given reduced priority and value.

1705. In the Republic of Ireland, for example, the city and county enterprise boards have statutory responsibility for such businesses and a core delivery budget to support them. That situation simply does not exist in Northern Ireland. ENI strongly disagrees with the view that locally focused businesses will happen anyway and do not need support.

1706. **Mr Ken Nelson (Enterprise Northern Ireland):** Thank you, Chairman and members, for the opportunity to be here today. ENI strongly emphasises that local business is an important part of the economy and is concerned that the priority given to support for local business may reduce. There is a fair amount of

change in the offing, as all members know. There is the review of public administration and the implications of the change to seven, 11, or however many super councils.

1707. Invest Northern Ireland is also changing its policies and has indicated that it may move away from supporting local businesses. The social entrepreneurship programme that Invest Northern Ireland has just announced will run for only two years. Although the social economy receives much attention and many column inches, tangible support given to the social enterprise programme and to social entrepreneurs is limited — and it is time limited. ENI is worried about where the policy vacuum will leave local businesses and social enterprises.

1708. I noted and acknowledge Wilfie Hamilton's comments about trying to encourage micro-enterprises to engage more in international trade. However, there is a big job to be done in building the capacity of local businesses before they can do that, and this is where local solutions and local support are needed. The networks and programmes in which ENI is involved can provide that support. We want such support to remain at the heart of the policy agenda on the local economy.

1709. **Dr Nicholas O'Shiel (Enterprise Northern Ireland):** Thank you for inviting us here today. Following on from what Ken said, ENI wants to get across what it would like to achieve in Northern Ireland over the next 10 years and to stress the contribution that small businesses can make to developing the economy over the longer period of 10 or 20 years.

1710. We were interested in some of DETI's comments. Undoubtedly, Northern Ireland has the necessary Departments, organisations and strategies, but ENI can pick up on their implementation. We see ourselves as being on the ground and able to implement policies and strategies locally. The challenge over the next 10 years will be to get the Northern Ireland economy to where we all presumably want it to be.

1711. **Mrs McGregor:** There is a strategy for accelerating entrepreneurship in Northern Ireland. However, our concern is that the strategy is not cross-departmental either in budget or in focus

— and it should be. All Departments approved the strategy in principle but, from an ENI perspective, it feels as though they are still operating in silos and that Invest Northern Ireland is taking the lead in that area. DEL and DARD have a role to play, and the challenge is to integrate budgets and people to ensure that the approach is co-ordinated and that people are not cutting across one other.

1712. ENI simply cannot figure out why no one has statutory responsibility for this sector and would encourage the Assembly to ensure that a Department is given such responsibility. ENI welcomes the transfer of power to local councils. However, we fear that because of the lack of transitional arrangements there will appear to be seven, or 13, or however many, approaches to entrepreneurship unless one Department has the overarching responsibility that will ensure a common approach to enterprise across Northern Ireland. ENI is also concerned that although power may transfer, the budget may not. How will local councils fund and support locally focused businesses as they go forward?

1713. ENI is asking DETI to put a framework in place for entrepreneurship, which will be implemented by councils working in partnership with ENI and other providers.

1714. We should be accountable to the Assembly for any agreed targets, and there should be common corporate provision. As I said earlier, 10 years ago there was an inconsistent approach to small-business support. A person who lived in Limavady might have received a grant of £500 but no training, a person who lived in Larne might have received £5,000 and training, and a person who lived in another area might have received only training. At some point, that scenario resulted in Northern Ireland having the lowest business start-up rate in Europe. We now have the second lowest, so we have made some progress. We are at least moving in the right direction. Our concern with the RPA agenda is that that momentum will be lost.

1715. **Mr Nelson:** The DETI officials commented on the low business start-up rate. Although that has been a challenge for us all, it is important to note that businesses that do start

up in Northern Ireland stay in business longer. The survival rate of business start-ups in Northern Ireland is much higher than in the rest of the UK. That is important to note, because it says something about the support that is in place for those starting a business. The challenge is to introduce more people to the enterprise culture, to help them to set up a business and to help that business to grow.

1716. **Mr Neeson:** I wish to declare an interest. I am a member of the board of Carrickfergus Enterprise Agency Ltd.

1717. **Mrs McGregor:** That ties in with my earlier comment. John, did you not have some connection to Coleraine Enterprise Agency at some point. No? *[Laughter.]*

1718. **Mr Dallat:** Chairman, I want to ask a question.

1719. **Mr Neeson:** First, I wish to congratulate Enterprise Northern Ireland on the success of its business programme. I am just concerned about the programme's future. What will happen to it?

1720. Secondly, you raised concerns about the loss of continuity of support in the run-up to the RPA. How can those concerns be dealt with?

1721. **Mrs McGregor:** Somebody must have statutory responsibility for it, as I keep saying. We need to recognise the value of our locally focused businesses and to ring-fence some form of budget that will provide support. At present, support is of a stop-start, ad hoc nature. Consistent support and a consistent budget are needed. DETI, or someone else, must be responsible for an overarching policy framework and for ensuring that we produce good annual research through the Global Entrepreneurship Monitor (GEM) and that we go up the scale rather than down it.

1722. **Mr Nelson:** Greater engagement is also required. Enterprise Northern Ireland has seen no evidence to date that the local economy is high up the agenda in either the work that is being done in the RPA process or in the preparation work for the launch of the RPA in 2008-09. Those who are preparing for the RPA should engage with ENI or others to ensure that local businesses get that support. I make that point to ensure that it is on the agenda at this



stage, because surely a great deal of planning work and engagement are under way at some level. The economy should be part of that engagement.

1723. **Mrs McGregor:** In our engagement with organisations such as the Society of Local Authority Chief Executives (SOLACE) and the Northern Ireland Local Government Association (NILGA), we noticed that there appears to be a great deal of focus on legislation and on its implementation in areas for which councils do not have power, even though they already have local economic-development powers. Therefore it appears that the issue is on the back burner. Suddenly 2009 will arrive, and we will be saying: “What are we doing about small-business support?”

1724. **Mr Neeson:** It is important for you to know, Chairman, that there will be a shadow period. It is more likely that elections to the new councils will take place in 2008.

1725. **Dr O’Shiel:** On the same point, we are concerned that, without statutory responsibility and without a commitment to and a profile of small businesses, budgets and resources for small businesses might get squeezed.

1726. Moreover, if there is a transition of responsibility from Invest Northern Ireland to local councils, will adequate resources also be transferred? Will there be a time lag between the handover and the assuming of responsibility so that resources can be allocated and put in place? Small and local businesses would suffer if that happened.

*1.15 pm*

1727. **Mr McCausland:** This is a very important sector. You mentioned the 32 local enterprise agencies across Northern Ireland and their engagement with local communities. There seems to be quite a variation across the local enterprise agencies in their engagement with local communities, their transparency and openness, and their contact with local politicians. Could more be done to encourage those aspects? Some local enterprise agencies are very good at engaging with their communities;

in other areas, engagement does not happen at any significant level.

1728. If we are to maximise the benefit of the local enterprise agencies for communities, we need engagement with the stakeholders in a community.

1729. **Mr Nelson:** That is an interesting observation. I have just taken on the chairmanship of the organisation, and Nick has been vice-chairman for a couple of years. We have been working on quality development, which includes corporate governance and raising the quality capacity in each member. We have a programme of continuing professional development for all staff. We have a strategic process that engages all the directors. Part of that is recognising that there is a wide group of stakeholders with whom it is important to work closely. Our members are taking that message on board and are responding to the new circumstances.

1730. The fact that we are here today shows that stakeholders recognise the value of Enterprise Northern Ireland and its members. That feeds back to our members, who respond accordingly. That is a challenge for us, but we are engaged in it.

1731. **Dr McDonnell:** You said that you have about 5,000 tenants across 32 agencies.

1732. **Mrs McGregor:** That was at the most recent count; it could be higher now.

1733. **Dr McDonnell:** How long does a tenant stay with you?

1734. **Dr O’Shiel:** It varies. Our initial remit is to attract tenants into a centre and then give them the support that they need. There is no fixed number of years — three years or five years, for example — after which a tenant must move out. We have about 40 businesses in the centre of Omagh, and in any given year of the past three to four years about eight of them would move out and eight would move in. There is a turnover, or a “churn” as we call it, although I cannot tell you specifically how long each tenant might stay.

1735. There are several reasons for tenants leaving; they might outgrow us, for example.

Although some of the centres are quite large, we do not supply 10,000 sq ft or 20,000 sq ft to people. Therefore somebody who has been with us for two or three years may outgrow us and want to buy or develop their own premises. There is no hard and fast rule. The enterprise centres provide a start-up, incubation role: when a company expands or develops it will have to go somewhere else to find space. Of the 40 businesses that we have, the average employment level is about four or five persons.

1736. **Dr McDonnell:** In the past, the accusation was made, perhaps wrongly, that it was hardly worth starting up a business in some local enterprise agencies. All that happened was that existing small businesses treated the local enterprise centre as a source of low rent. Is there any credibility in such claims?

1737. **Dr O'Shiel:** We do not say that all our tenants stay for three years and then move on; some tenants stay longer than others. To my knowledge, at least in Omagh, our rents are commercial. A potential tenant will ask about rents, and we will tell them where other spaces are available in the area. The tenant will make his or her own decision. If a tenant comes to us it is for business reasons, not because we are perceived as being cheaper. We are not necessarily cheaper.

1738. In fact, in some cases, someone across the road who has premises that have been lying vacant for a while might offer it at a reduced rent. We do not see ourselves as discount renters; we rent space at the market or commercial rate. Other factors such as space and the support we provide will determine whether firms come.

1739. **Dr McDonnell:** What is your overall budget and how do you derive it?

1740. **Mrs McGregor:** Our budget has grown annually. In the first year, our budget was £1 million. It is currently £6 million, which includes a loan fund pot of approximately £2 million. Each of our 32 members contributes to the core to enable it to run. We also tender to organisations such as Invest Northern Ireland and councils for programmes such as Start a Business. The annual budget for that is £4.5 million but as regards fees to Enterprise

Northern Ireland it would be worth about £1.5 million. We manage larger budgets than we actually gain fees for.

1741. **Dr McDonnell:** How much would each member contribute?

1742. **Mrs McGregor:** Each of our 32 members contributes £1,500 a year. When Enterprise Northern Ireland was formed, Invest Northern Ireland supported it and provided three years' funding. We raised £30,000, Invest Northern Ireland gave us £30,000 and the International Fund for Ireland gave us £30,000. That was the situation for the first three years. That funding has now ceased so we are effectively self-sustaining.

1743. **Mr Nelson:** It is important to recognise that although Mrs McGregor has described funding in terms of the core organisation; we are a member-led organisation. In each individual local enterprise area (LEA) one third to one half of the income comes from the rental of property, and the remainder comes from services delivered — payment on outputs. I would re-emphasise that no LEA receives core funding. This is a different situation from that which prevails in the Republic of Ireland where there are county enterprise boards that provide core funding for staff costs.

1744. Each board must ensure that an LEA is self-financing, can pay its bills, and is paid only on outputs.

1745. **Mrs McGregor:** I administer the Start a Business programme on behalf of Invest Northern Ireland. An LEA would deliver a lead-in assessment, which would comprise a training session perhaps, and their fees would go on to a management information system and would be paid to them every year. That is why the figure for the centre seems high. The LEAs would be paid £55 for a lead-in assessment and £175 for eight training programmes. The subgroup will realise that we were talking earlier about dealing with 36,000 clients and 8,500 businesses over four years. It is a case of money in, money out.

1746. **The Chairman (Mr Molloy):** I draw members' attention to the submission and the

response to the terms of reference so that we can relate those two issues together.

1747. **Ms Gildernew:** Further to Dr McDonnell's question, I am very familiar with the areas within my constituency, and to me it is not a bit strange that once companies get through the incubation period there is a reluctance to move out. There are a number of reasons for this. It is not that rent is cheaper, but there is an infrastructure in and around them that they rely on and in which they support one another. If companies staying within enterprise centres is not a problem then we need to increase capacity in order to encourage new firms to take up occupancy alongside those established firms. We need to ensure that they have the support that they are relying on each other for as much as they are relying on Enterprise Northern Ireland. In Dungannon, rent is not cheap. Companies are there because the resources they rely on are around them.

1748. As regards business starts — and forgive me for being parochial — Fermanagh may have a good level of business starts but it has a very poor level post-start up. There is a lack of sustainability within that sector.

1749. Our neighbour is County Monaghan where there is a wonderful entrepreneurial spirit. When you travel around that county you see signs for shoe factories, or furniture or kitchen stores along every road. There seems to be far more of that indigenous entrepreneurial spirit there, and it is only a stone's throw away from us.

1750. Is it a lack of core funding and statutory responsibility that gives companies a few miles down the road a head start? What do we need to do to encourage more business start-ups and sustainability?

1751. I am a firm believer in supporting indigenous investment. Foreign direct investment is not the answer in a rural constituency. ENI supports indigenous investment, and it is one of the few successes that has not been hampered by the lack of infrastructure to the same extent as other sectors.

1752. In relation to the subgroup's terms of reference, what does your sector need to grow and to give more support to small businesses to maintain them as an alternative to bigger foreign direct investment enterprises?

1753. **Dr O'Shiel:** I have a couple of points. Long-term structure is the big answer. The last 10 years of enterprise support have been like a tap that has been turned on and off. Any enterprise agency of the 32 that comprise ENI could simplistically say that, as Ken said, 40% to 45% of their income comes from property and 55% to 60% comes from programmes.

1754. Since European money has come to Northern Ireland over the last number of years, the subgroup will be aware that there have been many programmes to support and develop businesses. Our programmes run from between three and 18 months, but any programme, by definition, will come to an end. The longest running is probably the Start A Business programme, but, in itself, that is run in three-year cycles, and there have been times when, two and a half years through a cycle, there have been intensive discussions on whether there will be another.

1755. Once the hurdle of whether there will be another programme cycle has been cleared, our big challenge in recent years has been to secure resources. On each occasion — and this is not a complaint; simply a fact — the resources have been squeezed and squeezed.

1756. One of the major arguments that ENI wants to communicate to the subgroup is that if small businesses were given policy priority, it would not be bidding for programme resources in an ad hoc manner every six months or three years. It would not be in a situation where its resources are the easiest to cut. A balance must be struck between local small businesses and foreign direct investment. Without going into too much detail, ENI knows that that is not the answer for the more rural areas.

1757. A couple of years ago, Invest NI commissioned a good report at great expense, which said that foreign direct investment would largely be concentrated in Belfast, although

some may go to the west and to Derry. That is not a criticism of Invest NI or its report.

1758. Foreign direct investment has moved from the manufacturing sector to more service-based sectors. What do foreign investors want? They want young people. What do young people want? They want a centre of population, somewhere to live, culture, nightlife, and so on.

1759. Considering global foreign direct investment over the next 10 years, competition is one reason that many foreign investors will look elsewhere. Any foreign investors that come to Northern Ireland will be small but perfectly formed and will probably locate in population centres. It is very unlikely that they will locate in rural areas, which highlights the importance of small businesses.

1760. That is probably a long-winded answer to your question, but structure is the key factor. It is important that someone has long-term responsibility to ensure that local business support is a priority. We all say that it is important; it should be made important and the resources should be attached to it.

1761. **Mrs McGregor:** There should also be some continuum of support. Through the standardised Start a Business programme, ENI has proved that an impact can be made. However, to stimulate entrepreneurship and encourage people to become self-employed rather than staying unemployed or working in the public sector, serious resources must be applied at education level and to the long-term unemployed.

1762. With the new neighbourhood renewal targets especially, ENI is trying to reach those people who are still economically inactive. There is no Northern Ireland-wide programme or resource applied to that — it is stop-start and ad hoc, with different agencies involved.

1763. Effectively, when people complete the Start a Business programme, they are abandoned. Unless they are directed to other programmes, such as Tradelinks, there are no resources to continue supporting them. Two years ago, ENI piloted the successful Develop a Business programme, and Invest Northern Ireland acknowledged that it generated good added

value to review a business one or two years after its creation to see whether it had the potential to grow and to encourage it to develop.

1764. Sometimes, even after two years, businesses are afraid to take risks and to go outside their local communities to develop cross-border trade or to employ more people. The micro-business sector is effectively abandoned. Therefore, a continuum of support is critical.

*1.30 pm*

1765. **Mr Nelson:** Another factor to bear in mind is that small business owners and owner-managers often face a lot of confusion. There are so many things out there that they can find the whole picture of economic intervention confusing, and help is needed to get them through that maze.

1766. Nick and I have worked in this field for about 15 years. In my experience, the best results have often come when we have acted as account managers, being seen as the point of contact for a business and guiding it through the range of options that are available. The businesses see us as local people to whom they can turn, and they expect us to be able to inform them of opportunities for funding or training and to direct them through those processes. Often, the businesses are busy doing what they should be doing, and their staff do not have the time to attend all the seminars and gather all the relevant information. They want someone to present it to them. That local focus and account management role is important. Confusion is widespread among small business owners.

1767. **Mr Dallat:** My congratulations to ENI. Perhaps, in the interests of honesty and fair play, I should state that I am a former member of a local enterprise agency. *[Laughter.]*

1768. We have spoken at length about the culture of enterprise. Would it be useful for a new Assembly to encourage the education sector, from primary school up, to develop the basic skills that young people need? I am thinking about money management, budgeting, marketing and research. My experience is that many people with good skills in making products lack the basic skills that they need to



get started. I recognise the work of Young Enterprise Northern Ireland (YENI) and people like that, but my impression is that such support is erratic and that the priority given to enterprise depends on the ethos of individual schools.

What are ENI's views on that? Is involving the education sector critical? Should the Assembly consider lobbying the examination boards and the Departments?

1769. **The Chairman (Mr Molloy):** It could be part of the curriculum.

1770. **Mr Nelson:** Yes, in an ideal world, enterprise activities would take place at education level, start-up level, and business-development level. ENI works in those areas and with YENI, but the thing that would make the most difference in the next few years would be the introduction of funding other than ad hoc project funding. ENI could do useful work in schools. It interacts with schools, but that is limited and is always as part of a programme. In ENI's ideal world, enterprise would be introduced in schools, furthered in the start-up sector, and developed, as our colleagues said earlier, through training on export markets, innovation and R&D.

1771. **Mr McElduff:** Earlier, John Simpson acknowledged the key role of regional institutes in the developing success of the Celtic tiger economy in the Twenty-six Counties. Does ENI have any comments on a future further education strategy and how it might feed into the economy?

1772. **Mrs McGregor:** Through the Association of Northern Ireland Colleges (ANIC), ENI works closely with the further education colleges and believes that there is a role for both organisations in the development of the Northern Ireland economy. To show members how that might operate in practice, I shall ask Nick to outline how he works with Omagh College of Further Education.

1773. **Dr O'Shiel:** For the past four years, ENI, Omagh College of Further Education and Omagh District Council have had a formal arrangement with the University of Ulster, which is called the Omagh University Partnership.

1774. We found it difficult to get the university to interact with local businesses, partly because of their size and needs. Local small businesses do not see innovation and research and development as being for them. Omagh College, the university and the enterprise agency have links with the companies and can deal with them, and we introduce them, through Omagh College, to lecturers, depending on their skills. We also reach outside the college to the university, and that cycle continues. That is one example of how it can work.

1775. **Mr Weir:** I apologise for being outside for part of your presentation. From what I heard, there were two points that resonated strongly with me. I was struck by what you said about the lack of co-ordination between Departments and agencies. Clearly a wide range of Government activities impacts on economic development and on the organisations that you have been working with. Do you have input into, or are you consulted in any way on, Government policies and strategies in skills issues in the Department for Employment and Learning or infrastructure priorities in the Department for Regional Development (DRD)? Earlier, John Simpson criticised DRD for not co-ordinating the roads infrastructure to cater for the needs of the economy. You also mentioned the rate of duty on fuel. Is there any co-ordination or consultation with you on that?

1776. You raised concerns about the Review of Public Administration. You said, and I think that it is true, that the focus is on legislation. I declare an interest through my involvement with the Northern Ireland Local Government Association (NILGA). You mentioned both NILGA and the Society of Local Authority Chief Executives (SOLACE). To be fair, the pressure to focus on legislation is not coming from any of the local government organisations; it is coming from the Department of the Environment, whose attitude is "Let's get the legislation in place and then we will try to forget about everything". Legislation is only 10% of the review, at most. What is important is what happens to implementation and delivery after that. At times, we felt as if we were trying to push the Government through treacle. If any

of the political parties can be of any help to you in getting those issues focused, we would be keen to hear from you, particularly on resourcing.

1777. What contact has there been between your organisation and the DOE on transferred services? Several of us are concerned that there has not been enough focus on transferred services, of which you are part. Finally, on resourcing again, some of us are concerned that some of the functions that are being transferred to local government are not bringing with them the necessary resources. The budgets for the Planning Service and the Roads Service have been reduced.

1778. One of the criticisms of yesterday's announcement was that it concentrated on big projects, but that there was very little investment in roads that will be handled by local government. It would raise concerns, both from local government and economic development points of view, if you thought that your budget would not be adequately resourced in local government. Apart from the lack of reassurances, is there anything specific that you can draw to our attention that you feel indicates that your budget will be squeezed before going into local government?

1779. **Mrs McGregor:** We are pushing for consultation with the DOE and other Departments; coincidentally, I meet DOE representatives tomorrow. I was to meet them a few months ago, but the meeting was postponed because they were busy talking to councils. We are driving that initiative; no one is coming for us.

1780. **Mr Weir:** Most councils have not noticed that the DOE has been talking to them. That may be the excuse with which the DOE fobbed you off.

1781. **Mrs McGregor:** We want to talk to the DOE tomorrow about how it is handling transition.

1782. I know that we keep harping on, but what will Invest Northern Ireland transfer if no one there officially has statutory responsibility for locally focused businesses and it has pressures on its own budget for inward investment? Will it transfer its current £6 million

entrepreneurship budget? That is being reduced year on year — it used to be £10 million. I do not know what will be left to transfer by 2009.

1783. **Mr Nelson:** Consultation has been ad hoc. We have pursued consultation opportunities, so we would welcome anything that you can do to ensure that we are more widely consulted. We have a valuable input to make. All the points that you mentioned, such as the skills issue, are critical to business. We would like to have more input into that.

1784. We have costed solutions, and, if it helped, we could give you further information and return to it. We do not have that today, but we can show you the interventions that we feel could be made at pre, post, and start-up level and the budget figures that are needed. You could then assess whether the economic development budget allows for it.

1785. **Mrs McGregor:** It would be important to understand how councils plan to deliver local economic development. Do they plan to be responsible for the local economic development strategy and build on the existing resources and infrastructures through local education authorities, further education colleges and other organisations? There may be concerns that councils would set themselves up as delivery arms and that the infrastructure that has been built up would be ignored. For the sake of all local providers, we would be keen to ensure that that did not happen.

1786. **Dr Birnie:** Thank you, Chairman. I thank the witnesses from Enterprise Northern Ireland for coming. Compared to the inward investment route, do the number of jobs that your agencies create and the cost of each job that is created provide good value?

1787. Secondly, repeating the question that I asked at the end of the DETI evidence session, to what extent do small business start-ups or small business owners and managers pursue growth? Do most of them reach a certain level of income and then stop growing? Years ago, commentators used to say, pejoratively, "Once you get your BMW in the garage, you stop investing." Or do they try to maximise their profits and aim at, say, 50 employees?

1788. **Mrs McGregor:** The total cost per participant through the start-up business programme is £1,055. That includes a grant of about £450, which used to be £750. Enterprise Northern Ireland's input is about £600 per client. That includes a lead-in assessment, six training sessions in marketing, IT and management, plus some post-start up mentoring and a web package.

1789. Taking the "dead wood" argument, even if you aggregate that sum up, the cost is about £8,000 per job. The dead wood in a programme is no more or less than in any standard Government intervention, so we are not performing better or worse than any Government-supported organisation.

1790. **Mr Nelson:** The picture is probably patchy, and it is hard to get a clear answer across the board. I suspect that the red tape against which many businesses come up is a factor. Therefore profit maximisation is not the only issue. Businesses must consider whether they want the hassle that is involved in expanding, because an adequate return is perhaps all that they need for their families. Therefore reducing the red tape and making it easier for such businesses to expand is a factor.

*1.45 pm*

1791. **The Chairman (Mr Molloy):** We asked this question of Invest Northern Ireland: how does a successful family business become an export business? Are grants and Government guarantees in particular available to help them move out of their comfort zones?

1792. **Mr Nelson:** Are you asking whether there are incentives that will encourage them to do more trading outside?

1793. **The Chairman (Mr Molloy):** Yes.

1794. **Mr Nelson:** Yes, a lot could be done. If there was an inbuilt incentive, perhaps capital allowances could be applied to exporting or international trade. I do not have a solution for you today, but we could come back to you on that.

1795. **Dr O'Shiel:** That is a valid point, and there is no doubt that a comfort factor exists. However, globalisation will probably challenge

that comfort factor over the next number of years, even though some people will be happy making a comfortable living locally. We are in a changing world, and that must be considered.

1796. About two years ago, Enterprise Northern Ireland proposed an add-on to the sort of problem that you raised when you discussed business development. We suggested targets and said that we would address every 10 businesses that were in this comfort zone, and perhaps three to four of those would go on to export. Without harping on about it too much, that project was a victim of a budget cut. Eighteen months ago, Enterprise Northern Ireland tendered for the Start a Business programme, and we had to develop a business section for it. We won that contract as a collective organisation, but in the period between winning it and signing up to agree it, the £1.5 million for it went.

1797. **Mrs McGregor:** Chairman, I will send you some written comments on encouraging family businesses to export. We could also give you examples of what has worked in other programmes.

1798. **The Chairman (Mr Molloy):** Thank you for your presentation, which was useful. With regard to the transfer of councils' powers, it is important to continue to work with councils so that we do not get into a quango/council situation.

1799. **Mrs McGregor:** I agree. Thank you for the opportunity to give evidence; it was much appreciated.

1800. **The Committee Clerk:** Chairman, a substantive draft press release is being circulated. I have included some quotations from the various submissions. Members may make amendments, and I will issue it when you are content.

1801. **The Chairman (Mr Molloy):** Have members read it?

1802. **Mr McElduff:** I suggest that, because of the subgroup's ongoing work, the phrase "continues to" take evidence be included in the heading. It would also be helpful if the press release stated that John Simpson is an economist.

1803. I also concede to Alasdair McDonnell that he is a recently elected MP, which should be shown in the list of attendees.

1804. **Dr Birnie:** My first name has been misspelt.

1805. **Ms Gildernew:** Enterprise Northern Ireland made the important point about how the lack of statutory responsibility impedes its work. That should be included in the press release.

1806. Could the paragraph on John Simpson's presentation be expanded to include some of his comments? It was very informative, and the press release does not reflect the volume of his contribution.

1807. **The Chairman (Mr Molloy):** I remind members that the minutes have to be corrected and that those who make presentations have the opportunity to make amendments.

1808. **The Committee Clerk:** We will consider any suggestions that you may have, Michelle.

1809. **The Chairman (Mr Molloy):** Stephen Quinn should also be given his title.

1810. Do members have any other points?

1811. **Mr Weir:** John Simpson's contribution was particularly helpful. Could he provide a short follow-up document?

1812. **The Committee Clerk:** We could try to ring him.

1813. **Mr Weir:** In the interests of having a balanced picture, it would be useful to have even a short paragraph on what he said. It would be better to contact John Simpson because I am always very reluctant to précis somebody else's work. Given that the contributions of DETI and Enterprise Northern Ireland were highlighted to a reasonable degree, it would be useful to highlight John Simpson's work, which I found useful.

1814. **The Committee Clerk:** I will also add a sentence about the statutory responsibility that Enterprise Northern Ireland mentioned. I will enquire whether John Simpson wants to provide a few additional lines.

1815. The next item is the date of the next meeting. The subgroup will have two meetings

on Thursday. One or two members have yet to confirm their attendance. We ought to have a quorum. The meeting will last about an hour. I will try to compile summary document of emerging issues, and have them ready by close of play tomorrow.

1816. **Mr Weir:** We are endeavouring to find a second party member to attend the later meeting.

1817. **The Committee Clerk:** There has not been time to discuss what has happened at previous meetings, so that will be an hour well spent. If the subgroup is given an extra week to finalise its report, members who also sit on the Preparation for Government Committee should bear that in mind.

1818. **Dr McDonnell:** When is the extra meeting?

1819. **The Committee Clerk:** The extra meeting is at 3.30 pm on Thursday. There will be a meeting at 10.00 am as normal, and a one-hour session on emerging issues in the afternoon. We will need to have a quorum. Hansard will provide an official report, but proceedings will not be in public.

1820. **The Chairman (Mr Molloy):** It would be useful if members arrived early to get business under way.

*Adjourned at 1.52 pm.*



## Thursday 3 August 2006

### Members:

The Chairman, Mr Francie Molloy  
Mr Roy Beggs  
Dr Esmond Birnie  
Mr John Dallat  
Mr Alex Easton  
Mr David Ford  
Ms Michelle Gildernew  
Dr Alasdair McDonnell  
Mr Barry McElduff  
Mr David McNarry  
Mr Sean Neeson  
Mr Peter Weir

### Witnesses:

Mr Tony Hopkins	}	Industrial Task Force
Sir George Quigley		
Mr Michael Ryan		
Mr Peter Bunting	}	Northern Ireland Committee, Irish Congress of Trade Unions
Mr John Corey		
Mr Michael Kiddle		
Dr Robson Davison	}	Department of Education
Mr Will Haire		
Mrs Catherine Bell	}	Department for Learning and Employment
Mr Chris McConkey		
Dr Aideen McGinley		

### (EVIDENCE SESSION)

*The subgroup met at 10.05 am.*

*(The Chairman (Mr Molloy) in the Chair.)*

2135. **The Chairman (Mr Molloy):** I have apologies from Mr Paisley Jnr. Mr Easton is attending in his place. Mr Dallat is here in place of Ms Ritchie, and Mr McElduff is in place of Mr McLaughlin.

2136. **Mr Easton:** Mr Chairman, I will have to leave at about 12.00 noon as I have another engagement to attend.

2137. **Dr Birnie:** I have to leave at 11.15 am, but I hope that a substitute will replace me.

2138. **The Committee Clerk:** Members should try to avoid leaving in the middle of an evidence session.

2139. **The Chairman (Mr Molloy):** Are members content with the draft minutes of the meeting of 1 August?

*Members indicated assent.*

2140. In matters arising, the Committee on the Preparation for Government (PFG) has moved back the deadline for the preparation of the subgroup's report by one week until 25 August. Additional Chairpersons have also been appointed. The Alliance party has nominated Naomi Long, and the Ulster Unionist Party has nominated Jim Wilson. With the agreement of the PFG, they have been added to the list of Chairpersons. The SDLP was to nominate by close of play on 2 August.

2141. **Mr Dallat:** Alban Maginness is the SDLP nominee.

2142. **Ms Gildernew:** Mr Chairman, who are the other Chairpersons?

2143. **The Chairman (Mr Molloy):** Naomi Long, Jim Wilson and Alban Maginness.

2144. The Committee Clerk will explain the format for the evidence sessions.

2145. **The Committee Clerk:** There will be four evidence sessions today, so I recommend that you allow 45 minutes for each. The witnesses have all been advised of that. I am aware that, in the past, some witnesses have taken rather longer than 15 minutes to make their presentations, so you might need to speed them along from time to time.

2146. With regard to future business, the extra week to complete the report will make all the difference, certainly for the Committee staff. With the original deadlines, the plan was to spend the final week drafting the emerging recommendations and writing the draft report

until the very last day. That would have been very tight.

2147. I suggest that the subgroup slots in a written evidence session on 15 August, because there will be quite a few written presentations, and the subgroup will not have an opportunity to read and consider them otherwise. That means that the members can look at and discuss emerging recommendations on 17 August. The following week, the subgroup can consider the draft report, which will be the week ending 25 August. If members agree, we can arrange the work plan on that basis.

2148. **The Chairman (Mr Molloy):** Are Members content with that? We should not try to have any more evidence sessions, as we will become overloaded otherwise. We should use the time available to benefit the subgroup in drawing up the draft report.

2149. The Quinn Group is not available for the evidence session on 10 August. It has offered to give a written submission instead.

2150. **The Committee Clerk:** Next Thursday the evidence sessions will be with Moy Park, the Ulster Farmers' Union, Wrightbus and the Department of Finance and Personnel.

2151. **The Chairman (Mr Molloy):** Is the Northern Ireland Council for Voluntary Action (NICVA) the new name or the old name?

2152. **Mr McElduff:** I think that the Northern Ireland Voluntary Trust changed its name to the Community Foundation for Northern Ireland; NICVA remained the same.

2153. **The Chairman (Mr Molloy):** OK. The closed session this afternoon will start at 3.30 pm and last about an hour. We must have a quorum, and we will consider the emerging issues. To date, we have just been taking evidence and we need an opportunity to discuss the issues that have emerged from the evidence sessions.

2154. **The Committee Clerk:** A few members have indicated that they may not be able to make it. Can members confirm their attendance, to make sure that there will be a quorum?

2155. **Mr Weir:** From the DUP, Wilson Clyde and I will be attending.

2156. **Ms Gildernew:** We are good to attend.

2157. **Mr McElduff:** We are absolutely committed.

2158. **The Chairman (Mr Molloy):** Mr Dallat, are you able to attend this afternoon's session on emerging issues?

2159. **Mr Dallat:** I am.

2160. **Mr Neeson:** I am not able to attend this afternoon, but David Ford will be attending.

2161. **The Chairman (Mr Molloy):** Last time, Mr McNarry made a boast.

2162. **Mr McNarry:** I am not sure.

2163. **Dr Birnie:** I am OK to attend.

2164. **The Committee Clerk:** The afternoon session will begin at 3.30 pm and last about an hour. It is a key opportunity for the subgroup to consider and think about the emerging issues.

2165. **The Chairman (Mr Molloy):** Members will have received the paper on emerging issues this morning.

2166. **The Committee Clerk:** Two papers have been issued this morning: one is a summary of the various evidence sessions; the other is a research paper. I have also asked Paul Moore, who is assisting the subgroup, to prepare a paper. Members will have their own views, but the papers are there to assist them. Dr Gilleece has also prepared a paper, which will be distributed at this afternoon's session.

2167. **The Chairman (Mr Molloy):** Are we ready for the presentation from Sir George Quigley?

2168. **Mr Neeson:** Sir Gorgeous George.

2169. **Mr McNarry:** Galloway is not coming in here. *[Laughter.]*

2170. **Ms Gildernew:** Sean, if this relationship develops, will you need to avail yourself of the Cherry Room? *[Laughter.]*

2171. **The Chairman (Mr Molloy):** Hansard is recording the proceedings!

2172. Questions should be related as much as possible to the subgroup's terms of reference. Short questions will perhaps receive short answers.

2173. I welcome Sir George Quigley, Tony Hopkins and Michael Ryan from the Industrial Task Force. If you would like to make a short opening presentation, members will ask questions. Thank you for attending at such short notice. The subgroup considers it important to seek views before it completes its report, which will be debated in the Assembly.

2174. **Sir George Quigley (Industrial Task Force):** Thank you very much. I shall be as brief as I can. There is some ground that I wish to cover.

2175. We were absolutely delighted to be invited to give evidence to this important subgroup, because getting the economic dimension right is essential for the future welfare and enduring stability of Northern Ireland.

2176. We all hope that the position is swiftly reached whereby local Ministers take the critical decisions on that economic dimension. However, it is vital for the crucial issue of corporation tax, about which I shall speak later, to be decided as an indispensable component of the devolution settlement itself. The credibility of an Executive assuming responsibility, but without the tools to do the job, would quickly be put at risk.

2177. I hope that it will be apparent from our presentation that the invitation to give evidence on the subgroup's three terms of reference has been taken very seriously. I may curtail the oral presentation in the interests of brevity, but I hope that members will all read the complete text. We will be pleased to engage in discussion later to elaborate those points to which I merely allude in the presentation.

*10.15 am*

2178. To address first the major impediments to the development of the economy, the key point is that our economic structure is simply not fit for purpose. The wealth gap with the rest of the United Kingdom persists, with gross value added per head at about 80% of the UK average; in Scotland it is close to the average. At double the UK rate in the past 10 years, job growth has been good. However, our ability to catch up with the rest of the UK is hampered by the

worrying negative trend in labour productivity: between 1998 and 2004 there was a drop of 7%, from just over 88% of the UK average to just under 82%.

2179. Productivity in the production industries, including manufacturing, improved to slightly above the UK average; however, productivity in the service sector declined from 88% to a very poor 78%. It was in the service sector that the job growth occurred — almost 17%. Manufacturing, however, dropped by 13%. The gross value added of the service-sector jobs is only 72% of jobs in manufacturing.

2180. It is clear that the structure of the Northern Ireland economy has been changing, but in precisely the opposite direction to the creation of the high-value-added economy that is the declared aim of Government policy. Restructuring has been taking place through an employment boom in low-productivity jobs. On that basis, the possibility of closing the wealth gap with the rest of the UK — still less of drawing level with the Republic, which has overtaken the UK — is remote.

2181. The imbalance between the public and private sectors is not conducive to closing the wealth gap. The proportion of regional output spent by the Government on transfer payments, such as social security, or providing health and education services, is as much as 71% of gross domestic product (GDP). The public sector accounts for 35% of all employment but only 27% of gross value added. It therefore lags behind the wider economy in productivity levels. Public money directly or indirectly supports very strong consumer spending.

2182. Simply cutting the public sector, as some suggest, would achieve nothing. It will have to find its appropriate level in a rebalanced economy that has a greatly enhanced market sector. Such enhancement is urgent, since the Government has announced that public-sector growth in the UK is set to drop, first to 3%, and then to 1.9% per annum, from the unprecedentedly high level of 4.9% in recent years.

2183. Economies that have to stand on their own feet cannot grow sustainably unless they have sectors that generate growth in net exports.

However, the relative dynamism of a region's export base is also critical. Regions with an above average output of tradable goods or services will also tend to have an above average per capita income, which we do not. Northern Ireland's manufacturing sales outside the Republic and the rest of the UK amount to only £3.5 billion per annum. Sales of services are unlikely to be more than a small fraction of that. To achieve catch-up with the rest of the UK and to close the wealth gap — and catching up with the average is no great ambition — Northern Ireland needs to achieve a massive increase in the size of its export base.

2184. The conclusion is inescapable: Northern Ireland needs a far larger, export-driven private sector with higher value added, higher productivity and higher earning power. We need to be far more deeply integrated into the global economy. However, the existing private sector base lacks critical mass. However much its performance may be enhanced — and it can be enhanced — it cannot on its own get Northern Ireland onto a new economic trajectory, any more than the Republic's private sector base could have done.

2185. We need to attract a much stronger flow of inward investment of the right kind — and I underline the importance of “the right kind” — to achieve the private sector base that I have just described. That will not happen without a competitive corporation tax rate. Failure to succeed on that front will constitute, in your terminology, an insuperable impediment to the development of the economy.

2186. Underperformance by the existing base will also impede development. The growth task will fall largely to the companies in the technology and market sectors that have, or can develop, a competitive position. The Industrial Task Force has a great deal to say about the need for companies to understand technological change, develop their international trade capabilities and devote adequate resources to research and development. We recommended that a centre be established to help companies to brief themselves more effectively on relevant developments in technology worldwide.

2187. The Government can assist the existing base; Invest Northern Ireland can encourage, stimulate and support. However, in the final analysis, the responsibility for growth must be vigorously and effectively discharged by business itself.

2188. I will move on to the second area of the subgroup's remit, which is to consider the fiscal incentives that might promote foreign direct investment (FDI) and indigenous investment.

2189. My first point is that the analysis that I have just given argues for a greatly increased flow of inward investment. As well as embarking on the long, slow task of growing your own timber, you must buy in the capabilities — innovation, skills and marketing outreach — of established, high value-added, technologically driven, profitable companies worldwide. That cannot be done without the ability to compete on corporation tax.

2190. Given Northern Ireland's location on an island, of which the other half is able to offer a headline rate of 12.5% compared to our 30%, anything greater than 12.5% would not be competitive. A report by Goodbody Stockbrokers a year ago was unequivocal on that point:

*“The 12.5% rate ... has been integral in sustaining Ireland's position as one of the leading recipients of foreign direct investment (FDI) in the world ... As an example ... in 2003 Ireland received 4.6% of all FDI flows globally. We put this success down to the favourable corporation tax rates offered by the Irish Government.”*

2191. That is 4.6% for a country with a population of around 3.5 million people.

2192. Between 1995 and 2004, the FDI flows to the Republic of Ireland, translated into sterling, came to around £70 billion. That was 25 times the figure for Northern Ireland, which was around £2.8 billion. Some 90% of the Republic of Ireland's manufactured exports and 70% of its services exports are by foreign-owned companies. Its sales of manufactured goods outside the British Isles amount to almost 14 times the figure for Northern Ireland. FDI flows



act on the economy qualitatively as well as quantitatively. Northern Ireland has simply not had that kind of impact or influence on its economy.

2193. Unsurprisingly, the Organisation for Economic Co-operation and Development (OECD) economic survey report on the Republic of Ireland in 1999 said that the:

*“massive inflow of direct investment [had] been the major formative shock influencing the economy in the 1990s.”*

2194. The International Financial Services Centre is a showcase for the policy. A tax partner in the Dublin office of Pricewaterhouse-Coopers said recently:

*“The last big differentiator is low taxation. We would be extremely foolish to throw away that advantage.”*

2195. I do not hear anybody in the South saying that that advantage should be thrown away.

2196. A significant figure in the United States, who is very well versed in Irish affairs, recently wrote me a letter that was very supportive of the corporation tax proposal. He said:

*“With all of the corporate and financial clients that I advise, the corporate tax rate is at the top of the list when we discuss potential foreign investments.”*

2197. That gives a low-tax location a real head start in negotiations. A multitude of studies now demonstrate the importance of tax in the decisions of companies, as the decision to locate can often be a fine one, easily affected by differences in taxation.

2198. Of course, global FDI ebbs and flows. However, it is crucial that we position ourselves to get a bigger share of what is available. When tax is so important, being competitive on everything except tax will not achieve that.

2199. I have seen it argued that our headline, or standard, tax rate of 30% does not really matter because, when tax allowances are taken into account, the effective rate of tax is much lower, and the gap between the rate here and that in the Republic becomes insignificant. However, the published studies do not indicate that. They

measure the effective tax rate in the same way as does a company doing its appraisal of various potential investment locations.

2200. A 2005 study by one of the prime European research institutions, covering all 25 EU countries, found that the effective average tax rate for the Republic was 14·7%, while that for the UK was 28·9%, which is nearly double. The UK's was the seventh highest, and the Republic's was bettered only by Cyprus at 9·7%, Lithuania at 12·8% and Latvia at 14·4%. In fact, the Republic's headline rate was better than those in either Latvia or Lithuania.

2201. That is not to say that a low headline rate is not important, because it is. It is important for successful and profitable companies, which we want in Northern Ireland. Of course, the sheer market arousal effect of a low headline rate is very potent, as the Republic has discovered.

2202. There is also a concept that is known as the effective marginal tax rate, and confusion is often caused when that is cited in discussions of taxation as a location factor. It is important to be very clear that, according to the research, the effective marginal tax rate has no statistically significant impact on location decisions. The important fact is the effective average tax rate. I would be happy to discuss those somewhat technical points, because they are important.

2203. So far as inward investment goes, being cheek by jowl on the island with a state that is able to attract most of the significant growth and follow-on growth that comes to the island has been, frankly, a serious disadvantage. However, if the tax disadvantage were removed, Northern Ireland would derive immense benefit from sharing the island with a state that is already so globalised. It would not be a huge step for the host of foreign companies who already have the Republic in their viewfinders to widen the lens a little and take in the whole island. It is a delusion to talk of an island economy when there is such a serious impediment to the free flow of investment into and within the island.

2204. A strong economic cluster that extends over the whole island and derives strength from the capacity that is available in both parts

enhances the ability of both to participate fully in the global trade and investment flows. That could be very relevant, given that some surveys draw attention to the high cost base and skills shortages of the Republic. In other words, this need no longer be a zero-sum game as regards the two halves of the island.

2205. It is interesting that neither the Prime Minister, nor the Chancellor nor the Secretary of State, has ruled out changes to corporation tax; that has created the opportunity for the issue to be considered on its merits. To fail to press it to a conclusion would, in the judgement of the Industrial Task Force, be to lose an opportunity to set Northern Ireland on the path to a new economic future. That opportunity is unprecedented and unlikely to recur. Benefits would not only accrue to Northern Ireland; the benefits to the UK national interest of a stable, prosperous Northern Ireland are self-evident.

2206. Moreover, stimulating an increase in the tax base by lowering the tax rate, as happened so effectively in the Republic, is the only means of reducing public-sector dependency and curtailing the £6 billion-a-year drain on Exchequer funds. Eleven out of the 14 OECD countries that lowered their company tax rates between 2000 and 2004 increased their corporate tax receipts. For that reason, it is wholly unreasonable to suggest that the Northern Ireland public-expenditure block should be cut by the amount that the Treasury would lose in the short term in corporation tax receipts.

2207. The reduction in corporation tax would be a major strategic initiative designed to enable Northern Ireland, for the first time, to stand more on its own feet to the mutual benefit of the Treasury and the region. To take away some of the existing economic props while a more robust structure is in gestation would be counter-productive as well as — particularly in the context of a new Executive — politically unrealistic. If, as we are told, the goal is a more sustainable economy rather than one stuck indefinitely in the rut of public-sector dependency and unable to catch up with either Great Britain or the Republic, a major catalyst, rather than mere incremental tinkering, is required. The

Industrial Task Force is not aware of any alternative means that have been suggested for achieving sustainability.

*10.30 am*

2208. I have focused on the relevance of a corporation tax change for inward investment, but it could also be expected to administer a beneficial shock to the existing base. The business bodies at UK national level have been arguing strongly that a reduction in corporation tax is a key factor in enabling business to compete. It would be odd if local businesses were uniquely immune from the positive effects of tax change.

2209. The Industrial Task Force has commissioned further work on the corporation tax proposition. This will seek, inter alia, to assess more precisely the economic gain, as well as the likely effect in the short and longer term on the tax yield and on the annual Treasury subvention. Importantly, it will also identify other elements of the company tax regime — in addition to the low headline rate — which have made the Republic highly attractive to FDI. Since the Industrial Task Force sees its role as being primarily to support the thrust of the political parties on this issue — in other words, you — the results of that further work will, of course, be placed at the subgroup's disposal.

2210. The case for achieving economic growth by significantly enhancing fiscal incentives to encourage expenditure on R&D has been examined in a recent report by Prof Richard Harris, commissioned by the Economic Research Institute of Northern Ireland (ERINI). The report suggests that there are more fundamental reasons than cost for firms not investing in R&D. The basic problem is not a resource gap or the cost of R&D, but a capabilities gap, and changing capabilities takes a long time. The report concluded that, on its own, an R&D tax credit — which, of course, would be expensive — is unlikely to remedy the lack of an R&D culture in the Province.

2211. That accords with a report on the UK generally by PricewaterhouseCoopers's London office, which looked at the take-up by SMEs of a range of tax breaks. The report found that

most small firms do not change their plans or behaviours because of potential tax rewards. Instead, they see them as a reward for work they would do anyway.

2212. Even if it could be demonstrated that such tax breaks are effective, they would be primarily relevant to the existing industrial base. There is no evidence that they would be relevant in the context of the location decisions of FDI. They would not exert significant leverage on the fundamental issue, which is radical economic restructuring. They would, therefore, be no substitute for the corporation tax proposal and would not be directed to, or achieve, its purposes.

2213. In the context of fiscal incentives, there has been some discussion on the reduction of fuel duty. I will not go into that as it is covered in my paper, but the argument for it on business cost grounds alone is not on a par with the strategic arguments to be adduced for a reduction in corporation tax. We can deal with that issue later, if the subgroup wishes to do so.

2214. Finally, I turn to the construction of an economic package, or a peace dividend, to contribute to economic regeneration. The fundamental requirement is that an incoming Executive should be able to demonstrate that it has the means to make a successful assault on the critical problem — the unsustainability of a grossly unbalanced economy which, despite massive annual transfers from the Exchequer, cannot achieve the average wealth level for the UK. Without a competitive tax rate, the necessary radical restructuring will simply not be achieved.

2215. It would be counter-productive to trade such an initiative for other measures, which when viewed in a historical perspective, simply represent more of the same.

2216. That is not to say that there is no need for other compatible initiatives that contribute to the restructuring objective. Such initiatives do not necessarily require more money. In some cases, it may be a matter of directing existing resources more effectively. That is why without a detailed examination of the relevant budgets, which would only be possible from within

Government, it is difficult to quantify the resource implications of such initiatives.

2217. I shall do no more than offer five brief guidelines. First, if the key to a sustainable economic future lies in a major expansion of the market sector, it is vital that Invest Northern Ireland be adequately resourced to match the competition in state aids. To boost the performance of companies in such critical areas as R&D, technology licensing and export marketing, it is important that INI be as well equipped and effective as Enterprise Ireland in the Republic.

2218. Secondly, the important untapped source of labour supply, which is represented by our disproportionately large economically inactive population, must be equipped to enter the labour market. There is also a need to upgrade the skill levels of the population.

2219. Thirdly, setting firm targets for eliminating the long tail of underachievement in the education system and closely tracking and tackling obstacles to that is long overdue. Making the profile of the education system match our economic ambitions should be part of the ongoing agenda.

2220. Fourthly, tourism should be contributing three times as much to GDP as it currently does. Again, firm targets should be in place to make that happen.

2221. Finally, with regard to infrastructure, it is important to recognise the big increase in the projected amounts available for capital spending and, therefore, to assess the validity of the balance within those numbers. Indeed, I have heard people argue that one should devise a scoring system for individual projects, because if growing the market sector is to be the centrepiece of economic policy, infrastructure deficits that could frustrate that policy should clearly have priority.

2222. I have not dealt with the issue of business rates, because I understand that that is going to be the subject of a separate study.

2223. An economic package constructed on these lines could usefully supplement the reduction in the rate of corporation tax and improve the supply-side conditions that enhance the attractiveness of a host location. It is essentially

and inevitably more of the same — although its elements could hopefully be more effectively targeted and better delivered than hitherto. It cannot achieve the necessary step change. It is, therefore, no substitute for the reduction in corporation tax, which is needed to attract the global investor without whose help Northern Ireland simply cannot get on to a new economic trajectory.

2224. **The Chairman (Mr Molloy):** Thank you, George.

2225. **Mr McNarry:** Good morning, Sir George. It is good to see you looking as well as ever. That is one secret that you must pass on, never mind anything else.

2226. Presentations by business and commerce-related groups have so far laced the flavour of the cocktail that may result in a reduction in corporate tax. Without wishing to be abrupt — I have to ask this, because the question will be asked outside — can the business sector be justifiably accused of using the current political climate of talks to restore devolution to promote selfishly alternative incentives? Is it badgering the political parties, while they prepare for a devolved Government, to extract a special package from the Treasury or Gordon Blair?

2227. **Mr Weir:** Surely you mean Tony Blair or Gordon Brown?

2228. **Mr McNarry:** Whatever I said, I will reverse it. *[Laughter.]*

2229. It is important for those who have chosen to go down the political route to know whether they can pull off a reduction in the corporation tax rate. The same applies to the introduction of water rates, as the public are up in arms about that. There is an expectancy that MLAs would do something about that if the Assembly were restored tomorrow. The UUP would do something about it, but I cannot speak for the other parties.

2230. Finally, how consistent with the direct rulers is the Industrial Task Force in its request, or demand, for a reduction in the corporation tax rate? Is it getting anywhere with them, and are they listening? Are they making any

promises, saying that it is a good idea and that they will think about it?

2231. **Sir George Quigley:** That is a fair question, and I will answer it in two parts. First, I will deal with your question on whether this is a selfishly driven agenda by the business sector. I can only speak for the Industrial Task Force — but I would be surprised if what I say does not apply more generally. I have been amazed by the extent to which the debate in the business sector has focused on macroeconomic issues. In other words, the Industrial Task Force was driven to this conclusion. It is not the kind of natural conclusion that one would reach, because it is a difficult one, but the Industrial Task Force was driven to it following its analysis. If one simply has to seek more outside investment to make anything of the Northern Ireland economy, and if that requires us to be competitive on the corporation tax rate, as well as on everything else, there is no option but to go for the only weapon capable of delivering the outcome.

2232. Business colleagues have said that they are concerned about the economy; therefore, they would be happy if the lower corporation tax rate were limited for inward investment purposes. Northern Ireland businesses would be happy to take the pain of foregoing a lower corporation tax rate for indigenous businesses, provided that we get a weapon that will make this place go forward. Ultimately, more outside investment will benefit everyone, and I have heard people make that point. However, it would be difficult to implement, because one does not want indigenous businesses to be disadvantaged, especially if businesses from outside wish to invest in the same field. I have also heard people make that point. Lowering corporation tax is difficult. However, if it is the only way in which Northern Ireland will get up to the right level of economic performance, and it is the right thing to do, we must go for it.

2233. With regard to your question about progress with direct rulers, the Industrial Task Force's objective was to prevent direct rule wiping the issue off the table before anyone could debate it. We have been successful in that, inasmuch as the Secretary of State, having read



our report, said that the issues that it raised were important and merited serious consideration. In other words, he did not tell us that a debate on the issue was out of the question.

2234. When we met the Prime Minister — the Taoiseach was also there — he said that it was interesting that the Republic had benefited from it and that we must seriously consider the matter. When we met Gordon Brown — and I met him privately for discussion — he did not say that a lower corporation tax rate was simply not on, but he could have done so. Direct rule ministers are taking the view, and the Prime Minister said this, that if we want the UK Government to radically reform the economy, a lower corporation tax rate is more likely to be introduced if local politicians support the idea.

2235. The Prime Minister was not saying that the lower rate was bound to be granted if it were put forward by local politicians; he was saying that if there was a route towards a lower rate, it was that route, not the route of business going to direct rule Ministers and expecting a definitive decision from them.

2236. In common parlance, it is all to play for: the door has been left open, and it would be a great pity if the once-and-for-all opportunity to do it were passed over.

*10.45 am*

2237. **Mr McNarry:** I am grateful to Sir George for his explanation.

2238. I take the point of what direct rule Ministers, the Prime Minister and the Chancellor have said to you in not dismissing this. Was there a sense that they would not dismiss it if the proposals were to come from local politicians, but that they would dismiss it if local politicians were not able to put themselves in a position to make those proposals?

2239. **Sir George Quigley:** They were not going as far as that, as that point did not arise in that form. However — and we all hope that this will not happen — if one were in a situation where devolved Government did not prove possible, one would still be left with the big issue: will Northern Ireland simply go into decline because the public sector is not growing

and the productivity gap is widening. Where will it end up? The baton would have to be passed on.

2240. **Mr Michael Ryan (Industrial Task Force):** I am one of the businessmen on the task force — and some of you have been to those forums. I have made it clear, with respect to the potential reduction in corporation tax affecting already indigenous businesses, that from a Northern Ireland plc point of view, I would be prepared to accept the fact that it did not apply to my company.

2241. My company does not have anything to prove regarding its investment in Northern Ireland over the past 15 years. If the lower rate were to apply to new FDI only, I would accept that. On the other hand, to reinforce this from a business point of view, and with the global economy as it is, we must do something different, even businesses such as ours. As businessmen in the community, we have to deal with the global pressures that force us to reassess our businesses and look for more radical solutions than we would have considered previously.

2242. From discussions amongst ourselves, we decided that it was time to try to do something different. If that meant that established businesses would not avail of it, then, from a Northern Ireland plc viewpoint, there are bound to be spin offs, as Sir George mentioned. Even if my company and some of the larger companies in Northern Ireland were to expand, and even if we were to double, it would not make enough difference. We cannot expand with the people who are already here — even if we doubled our business, which would be unbelievable for us, and for companies such as Seagate Technology and Caterpillar. New people must come in — how can we achieve that?

2243. **The Chairman (Mr Molloy):** Time is running out, so please keep questions short and answers brief.

2244. **Mr Neeson:** Of all the organisations that have come before the subgroup, the Industrial Task Force is the first to focus on the single issue. Are the other fiscal incentives that are in place working? We have talked about the impact of industrial derating before, but has it

had an impact on attracting inward investment? Secondly Sir George, you talk about the rebalanced economy. Who will drive it? Will it be the business sector, the Government or what?

2245. **Sir George Quigley:** In answer to the last question about who will drive a rebalanced economy, I look forward to an economic future when market activity will, hopefully, drive the economy much more effectively. In other words, as I said during my presentation, companies must get up and go and make things happen. They must be ambitious for their futures. In doing so, business contributes not only to Northern Ireland's economic future, but, because economics, politics and stability are tied up together, it contributes to its political future as well.

2246. The Government can do certain things, such as creating a business-friendly environment, which has been a big factor in the South. Other important factors include consistency in policy and infrastructure or, for example, where the Government intervene in training arrangements. However, without a catalyst to bring companies through the door, there is nothing for anyone to work with.

2247. The South has had much success in attracting a huge mass of investment. In turn, that success gives everyone in the education system the goal to address how to meet the needs of that inward flow of investment and to get the infrastructure and telecommunications right. There is a strong stimulus to do things right simply because people are battering at the door saying that they have come to invest and that that is what they want. By introducing a driver, the positive forces for the development of the economy are internalised.

2248. In considering fiscal incentives for R&D, members may wish to read Prof Richard Harris's report, if they have not already done so. He makes the point that tax credits alone do not develop a culture attuned to R&D, etc. The impediments have nothing to do with the expense of R&D: it is about getting into the minds of companies that R&D is part of the company breathing process in the same way as training or reaching new markets.

2249. There is no evidence yet that tax credits produce the kind of change that we all want. Critically, tax credits would be relevant only to the industrial base that is already here: they would not do anything for bringing in companies.

2250. **Mr Weir:** Thank you, Sir George and colleagues, for your presentation. You have made a persuasive case for the reduction of corporation tax. Let me play devil's advocate on a couple of points to see your reaction.

2251. You stated that the responses from the Secretary of State through to the Prime Minister — or perhaps more appropriately through to the Chancellor — have been along the lines that the serious issues that have been raised deserve serious consideration. Such responses often smack to me of the answer really being no and Ministers not wanting a public row. Or Ministers may feel that although they know that they will not agree to something, there is some merit in holding out a carrot suggesting that it could happen, because that applies additional pressure to restore devolution, which is clearly the Government's principal objective. If the Government have not closed the door, and clear benefits could flow from a reduction in corporation tax, I wonder why they have not introduced it by now.

2252. Secondly, it has been suggested that a reduced rate of corporation tax in one region of a country may breach EU guidelines, as it may constitute state aid. How do you answer that point, and can you provide us with any worked examples within the EU of a country where one region has been given a different tax regime to another? That would be useful if we are to make the case for a reduction in corporation tax.

2253. Finally, I see the benefits of a reduced corporation tax for foreign direct investment. However, on page 13 or 14 of your presentation, you say that you believe that a reduced corporation tax would give:

*“ a considerable boost to the hospitality industry.”*

2254. Will you explain why that would be, as I am not clear on how that would be of particular benefit to the hospitality industry?

2255. **Sir George Quigley:** As far as the attitude of the Government is concerned, only time will tell.

2256. All that business can do is to place the ball properly on the field and give all the support that it can. In this case, the strikers are the local politicians, and I believe passionately that it is they who can get the ball into the net. That will have to be as indispensable a part of a settlement for devolution as the political aspect.

2257. It would be totally unfair for an Executive that does not have the tools to do the job properly to be forced to make many unpopular decisions and fail to deliver. Once that happens, the British Government will be over the hills and far away, and the Executive will be left holding the baby. If the Executive were to ask Government for this radical change, Government would simply say that the Executive has its public expenditure block, and it can do whatever it likes with it. We now have the opportunity of a lifetime.

2258. Surmounting EU obstacles will be a challenge. However, if Europe wants to do something, it will be done. A compelling case would have to be made. Spain and Portugal have been able to make some changes to their tax regimes.

2259. **Mr Weir:** I appreciate that you cannot expand too much on that issue, but if there were examples of areas where different tax regimes have not been challenged or overturned, it would be useful for the subgroup to know about them. For instance, the Azores has been mentioned. You could perhaps put any examples in writing to the subgroup.

2260. **Sir George Quigley:** There are a few successful examples. We are in a unique position on this island because Northern Ireland is cheek by jowl with a strong player that will always be able to outbid it for really attractive investment opportunities. That type of relationship does not exist in any other part of Europe. Where else has a North/South Ministerial Council? Where else are there interstate bodies, and so forth? We are in a unique position to mount a sustainable argument. We need to get

the best possible argument, and we must ensure that it sticks.

2261. **Mr Tony Hopkins (Industrial Task Force):** The timing of this initiative is the key point. I approach this issue from a different perspective; I was at the sharp end during the 1980s and the early 1990s, competing with the Republic for inward investment through the Industrial Development Board (IDB). Almost everything was similar, North and South, although in some ways the North had a better infrastructure, a better economic background and our people were just as talented. However, we always failed on the corporation tax issue. It was a block on every discussion that we had with a major company, and many companies would not even speak to us.

2262. At the end of the 1980s, we had a bash at changing the situation. We made valiant attempts with the Treasury, with the backing of the Northern Ireland Civil Service. Although the case was sound, we were seen off because although many aspects were exactly the same as they are now, we had no leverage. Given the precarious nature of our economy — productivity is going down, we are gaining jobs but they are not the right types of jobs to build an economy that can become self-sustaining — the timing of this initiative presents us with an opportunity to do something major and radical.

2263. **Sir George Quigley:** In the hospitality industry, our hoteliers — the people providing facilities and so forth — are competing in an island market. Visitors come to the island, and we want them to spend time in Northern Ireland. However, the service providers are paying UK rates of corporation tax. People in the industry have told me that that disadvantages Northern Ireland. Therefore, it would be very odd indeed if people could not benefit from that type of tax change. If you told people elsewhere in the UK that they could have their tax rate reduced to that level, they would jump at it.

*11.00 am*

2264. **Mr McNarry:** Did you know that members are now contributing to the economy? This morning, our mileage allowance was reduced.

2265. **Ms Gildernew:** Gentlemen, you are very welcome. It is interesting that you say that any rate above 12.5% would not be competitive. You are basically arguing for the harmonisation of tax rates across the island.

2266. I approach this matter from a slightly different perspective. Other contributors have recognised that FDI will not go to rural areas. That investment goes to Belfast and perhaps Derry, but other than that, it will have no impact. Other contributors have said that the Barnett formula may be looked at again and that less money may go to our overall budget. I am concerned about the impact of that on rural areas. How do you see the situation developing if jobs are all located in and around Belfast?

2267. Another interesting area was mentioned in the final stage of your report, which addressed education and skills. We all know that numeracy and literacy levels are not what they should be. At the moment, we have smaller classes, and that presents opportunities for more time to be given to individuals in the classroom. That is a huge opportunity for us, but the education budgets are being cut, and we will lose that opportunity to raise the level of educational attainment. The budget for adult learning has also been cut. What impact do you think that that will have?

2268. I noticed that you mentioned the lack of skills. You are clearly saying that we must invest more in education, in schools and in adult learning to increase the skills level and get those who are, at the moment, economically inactive into the workplace. We need those people, and we need them to be sufficiently skilled to take up that challenge.

2269. **Sir George Quigley:** Absolutely. That is very important. There are two matters that one is always keeping in tension and, hopefully, in harmony. One is the collective good, for which we must revivify the economy and raise its performance to a high level. We are climbing Everest; we are not just climbing a few thousand feet. At the same time, we must ensure that individuals have maximum opportunities, and that means equipping them with the wherewithal to participate in the labour market.

2270. If people do not have numeracy and literacy skills, they are not able to get on the first rung of the ladder. That is very important, but unless we are equally effectively developing labour-market opportunities, there is no point in producing many skilled people and many people who go on to higher education. We must do that in individual terms, but we also want to give those people opportunities. At the moment, far too many people are having to find their opportunities outside Northern Ireland, or they are taking jobs in Northern Ireland that are far below the level at which they could usefully be employed. I agree with you totally about the importance of an emphasis on education.

2271. Could I also respond to the point about the location of investment? One very interesting thing about the experience in the South is the extent to which business and inward investment has been prepared to invest all over the state. For example, from memory, something like 50% of projects last year were located away from the Dublin area.

2272. One of the most interesting inward investment projects I have seen for a long time was announced ten days ago in the South. A company in the huge Johnson and Johnson group will make stents for people who are challenged in a cardiac fashion, so to speak. That company will undertake development work and production, employing 460 people. Where is that investment going? Cashel. That investment will affect the whole area. Why should investment not go to Enniskillen? Why should it not go to Strabane, Ballymena, Coleraine, or wherever?

2273. **Ms Gildernew:** The difference is that there is a motorway to Cashel, which I pass frequently on the road to Cork.

2274. The existing roads infrastructure allows investment in Cork, Limerick and Galway.

2275. Liam Nellis presented an interesting slide on high performers and high earners, and another on educational attainment. They were damning. Border areas experienced the lowest levels of educational attainment. Overall, there were very few high earners in the North in contrast to the Twenty-six Counties. From that



point of view, Cashel may be a more attractive prospect than Enniskillen will ever be. We do not have the roads infrastructure to get people that far west; that represents a disadvantage. How can rural areas compete and benefit from this increase? I fear that we will be left far behind and that a new economic wasteland will be created: Fermanagh and Tyrone.

2276. **Sir George Quigley:** Let us stuff Northern Ireland with inward investment proposals, and there will be no wastelands. Infrastructure ought to be very carefully proofed, to see where failure to do it would impair economic objectives. If the road system to Enniskillen is going to impair the ability to create opportunities in Fermanagh, it ought to be addressed. We cannot be content with simply saying that in 2020 or 2050, some parts of Northern Ireland are not going to attract investment because people are not adequately educated and the infrastructure is inadequate. That would be an unacceptable proposition.

2277. Inward investment will become a driver; without it there would never have been such investment in infrastructure and in second- and third-level education in the South. It is a tremendous driver for change in all areas.

2278. **Mr Dallat:** I taught for several years in the Republic, where there was no selection. Are we still living with prejudice against vocational education? Is that a factor? Are we still exporting our brightest people to the best academic institutions in Britain? How much is that affecting the needs of employers? What can a new Assembly do to break down that prejudice and address the huge problems it has created?

2279. **Sir George Quigley:** Your point about very bright people leaving is well made. I was a member of the Dearing Committee on higher education seven or eight years ago, and I argued passionately in the Northern Ireland chapter — which I got all my colleagues throughout the UK to support — that we needed far more higher education places in Northern Ireland. Absolutely nothing was done about it. It is so obvious a point that it scarcely bears consideration. However, far from doing that, for a long time

the universities in Northern Ireland were the only ones in which numbers were capped.

2280. **Mr Dallat:** That is still the case.

2281. **Sir George Quigley:** So here we are. Whereas Scotland has the equivalent of two universities underpinned by a mass of students coming in from outside Scotland, we are exporting people. How can we credibly say that we want to build up a knowledge economy and a region that shines in world terms, when we have not been able to provide the higher education facilities that we need?

2282. Also, you are right that the primary level is critical. I do not advocate great schemes, but institution by institution, we must be able to measure progress on a five-year basis until we have no one emerging at age 11 with a reading age of seven and a numeracy age of seven or eight. It is appalling that that is happening; it means that whatever might happen at secondary level, those people are deprived of a future.

2283. **Mr Dallat:** In the short term I get the impression that industry has been saved to some extent by migrant labourers from eastern Europe.

2284. It has also come to my attention time and time again that the skills of those people are not matched to the needs of the employers. We heard some examples in previous evidence sessions. The most recent example was of a highly qualified engineer, with additional qualifications in transportation, working in a car breaker's yard. How damaging is it when the mechanisms in place to assess people create that kind of situation?

2285. **Sir George Quigley:** We are all at the early stages of this. So far, immigration has been relatively low compared to the South, where 8% of the workforce is now from overseas — which is incredible for a country that had net outward migration for years. We are only starting to find out how to use people properly. It has taken 2,000 years to find out how to use the indigenous population properly, so it may take a few more years to find out how to deal with those coming from outside.

2286. **The Chairman (Mr Molloy):** Gentlemen, we are running out of time, so I propose to take three short questions together from Alasdair McDonnell, Barry McElduff and Esmond Birnie.

2287. **Dr McDonnell:** Thank you very much, Sir George. I apologise for missing the first part of your presentation, but I certainly got the gist of what you said.

2288. You have already covered some of my points during the extensive questions that you have already answered. For me, the economy ties back to creating employment and to education. How do we tackle underachievement in education in inner-city areas, particularly in Belfast? That is a major drag on the economy. How can we get a bigger slice of the island economy? Should the tax regime be fixed? Are there other options if that is not possible?

2289. **Mr McElduff:** My question concerns political stability and how it might impact on the economy. I invite the Industrial Task Force to offer an opinion on how the continuation of direct rule would be bad for the economy in the North.

2290. **Dr Birnie:** First, to what extent might the corporation tax proposal be vulnerable to the phenomenon of transfer pricing, which has happened in the Irish Republic? Further to that, might the corporation tax advantage be nullified in the future — or even the near future — through moves made with regard to the United States Internal Revenue Service?

2291. Secondly, does the Republic of Ireland experience of having a low corporation tax rate genuinely prove the point that it leads to higher R&D? The Southern Irish R&D rate is not notably high.

2292. **Sir George Quigley:** With regard to getting a larger share of the island economy: if we do not get corporation tax, we can nibble at the edges of it. We can try to do more to get companies North and South interacting with one another. InterTradeIreland is doing a very good job, not just in promoting trade relationships. After all, 27% of Northern Ireland's exports now

go to the Republic. That is the same percentage as goes to the whole of the rest of Europe.

2293. Much has been done to get the trade interactions going. Again, people in the pharmaceutical cluster in the South and those in the very minute cluster in the North, for example, can be encouraged to interact more with one another. Frankly, the big mover will be the freeing-up of investment flows. That would really open the door 90 degrees, whereas anything else would open it 5% or 10%. It would mean pegging away at more of the same, and that will include more of what InterTradeIreland is there to do.

*11.15 am*

2294. In order to tackle educational underachievement, the situation must be micromanaged. What made the eastern Pacific education system so good was that individual schools related to their communities. They understood that three partners were involved: the parents; the school; and the pupils. Northern Ireland must adopt that same mindset, which is that the school must add value to every single person who comes through its doors. Everybody here would agree that one factor that holds back performance is parents' and teachers' low expectations. Our mindset must be transformed.

2295. Schools in Northern Ireland that have done very well have adopted some interesting practices. There are schools in Belfast and in Derry that are among the top performers despite being situated in difficult social areas. Those schools do not have — or, according to one's expectations, should not have — much external support, yet they are doing extremely well. They have adopted many innovative measures, including involving parents through having them take classes in the school and setting up after-school initiatives where kids can do their homework free from neighbourhood distractions. Therefore, we must micromanage rather than settle for the broad-brush approach that leaves it to the system to make things happen.

2296. I was asked whether direct rule is good or bad for the economy. Looking back over the past 30 years, which is beyond the memory of some of you, I can think of a number of people

who were fully committed to Northern Ireland. Stan Orme was a radical political figure in many ways, but he was absolutely solid on the economy, as was Roy Mason. Both were prepared to do significant things for Northern Ireland, and both fought their corner with the Treasury in order to get special things done here. Those days are largely gone. Direct rule Ministers may be well intentioned and may be doing their best, but decisions will always be taken in line with priorities that are not necessarily Northern Ireland's priorities.

2297. You people are steeped in the local situation; you can say what is right for this place's future, and then single-mindedly go for it. That is my general answer to the question, so I hope that you will be sitting in the seats of power very soon.

2298. As Dr Birnie knows, transfer pricing is pretty strictly regulated internationally. If there were any question, for example, of wanting to adapt corporation tax to transactions between Great Britain and Northern Ireland or between companies, that can be readily done, and the accountants that one talks to say that there is not really an issue there. Moreover, people in the International Financial Services Centre in Dublin worried about companies putting up their brass plate, but doing nothing more than that. I think that means were found to counter that. Good, practical answers exist to all those questions.

2299. I was asked whether the situation between the Republic of Ireland and the United States Internal Revenue Service could change. What is great about the inward-investment process is that it is good for both the US and the Republic of Ireland. Shareholders in the United States are getting a very good deal. They make good profits by locating companies in the Republic of Ireland. If any attempt was made to change that, pretty powerful lobbies in the US would say: "No, of course the countries that we go to get benefit, but we get a lot of benefit as well." One should not underestimate the power of the Irish lobby either in the US.

2300. People in Ireland will be very reluctant to see any change. I quoted a personal, confidential letter that I received on the US stance. I cannot reveal the identity of the writer, except to say

that it was someone who would have been pretty sensitive to the considerations that Dr Birnie mentioned.

2301. As for research and development, it is very difficult to develop a regional system of innovation of the sort to which Dr Birnie alluded. All the experts say that developing such a system is a long, slow process. That is where we must almost jump a stage and latch on to what the big global companies can do on a massive scale. It is interesting that Prof Richard Harris's report mentioned the importance of an inward investment policy that brought in the big players who, because of their economies of scale and scope, can do research and development on a massive scale.

2302. I hope that some of the research and development activity going on and the links being made to local academic institutions would rub off on the indigenous base. However, that could take years of effort. There are few examples worldwide of where it has been done successfully.

2303. **The Chairman (Mr Molloy):** Thank you, Gentlemen. I am sorry that we had to rush at the end of a very important contribution. Thank you for attending. We have your documentation. Perhaps you could send the subgroup any information that you have on examples of the co-operation about which Peter Weir asked.

2304. **Sir George Quigley:** Thank you very much, Mr Chairman, for the reception that you gave us. We will do our best on Mr Weir's question, although I suspect that there may be little information on the issue. We will be breaking new ground to some extent, but why should we be afraid of that?

2305. **The Chairman (Mr Molloy):** You are very welcome, Gentlemen. I apologise for the overrun in the last session. I hope that we can keep the questions and the submissions in this session short.

2306. **Mr Michael Kiddle (Northern Ireland Committee, Irish Congress of Trade Unions):** The panel is John Corey from the Northern Ireland Public Service Alliance (NIPSA), who is also a member of the Northern Ireland Committee, Irish Congress of Trade Unions

(NICICTU); Peter Bunting, who is the assistant general secretary of NICICTU, based in Northern Ireland; and I am Michael Kiddle, chairman of NICICTU for the next two years.

**2307. Mr Peter Bunting (Northern Ireland Committee, Irish Congress of Trade Unions):**

I thank the subgroup for giving us this opportunity. It is important that trade unions have an input into the drafting of economic and social policy in Northern Ireland, specifically in an economic context. We are aware of the dysfunctional nature of Northern Ireland's economy and its almost weekly exacerbation by the loss of jobs.

2308. Over the next year, about 1,500 jobs will haemorrhage from the Ministry of Defence, 500 from the Prudential Assurance Company Limited, from Visteon in west Belfast and from other companies — Teletech Europe in Duncairn Gardens looks to be under threat. That will lead to a huge loss of disposable income in Northern Ireland. That loss, allied to the increase in domestic rates, the high energy charges and the imposition of water charges, will have an adverse domino effect on the services sector.

2309. The economic outlook in Northern Ireland is gloomy. With that in mind, we set out to have a debate on the economy and have drafted a statement on the economy, 'Not Old Wine in New Bottles'. In recent years, the same old theories and propositions have been advanced on how to cure the ills of the Northern Ireland economy. We have set out our position in this document. It is all predicated on our belief that it is imperative — and, I must emphasise, on an economic and social basis only — that the Assembly and the devolutionary process be instituted. That will become clear during the presentation.

2310. The trade union movement believes that the ills of our economy cannot be solved by direct rule. Direct rule is currently the Treasury's main vehicle for recouping as much money as it gives to Northern Ireland in the subvention — for example, through the proposed water charges. Our propositions will not be implemented by direct rule; the best way forward is to engage in a devolutionary process,

which offers democratic accountability on the economic and social aspirations and objectives.

2311. The document addresses a number of issues. The first is the argument that the public sector is too big. Our view on that is simple: the private sector is too small and the public sector is not too big. We primarily believe that the crucial missing link in Northern Ireland is the absence of a wealth- and job-creating sector, an enterprise sector and an innovation sector. There is also a lack of enterprise, and, importantly, the only way to overcome that is by mobilising the human, social, economic and political will. That can only occur with devolution, the absence of which will not create any momentum or dynamic in the economy.

**2312. Mr John Corey (Northern Ireland Committee, Irish Congress of Trade Unions):**

To return to the Committee's terms of reference: the first task is to identify major impediments to the development of the economy. We very often hear that the size of the public sector is an impediment to the development of the economy. At best, it is presented as too large; at worst, it is presented as a drain on the private sector and damaging to the private sector's interests. One argument is that the availability of jobs in the public sector acts as a disincentive to people seeking jobs in the private sector. The trade unions do not share that analysis. Our submission tackles some of the arguments, and I would like to address four points that I think the subgroup should particularly consider when producing its report. The argument about the size of the public sector in Northern Ireland is such a populist one that it must be addressed and tackled head on.

2313. My first point is that GDP comparisons are often made between Northern Ireland and the UK as a whole, and that Northern Ireland compares very unfavourably with the rest of the UK. However, we strongly argue that making such a comparison is not comparing like with like. Compare Northern Ireland to a similar region in the UK — if there is a region that exactly matches Northern Ireland — and one will find that the GDP figures are more comparable. However, other factors are difficult



to measure in that, in comparison to the rest of the UK, the size of Northern Ireland's public sector is also dictated by economies of scale. Northern Ireland must set up an infrastructure of public services, whereas a single region of the UK may not have to set up the same infrastructure — it may have access to services that are on the same land mass. Those comparisons are not valid and should not be used to attack the public sector in Northern Ireland.

*11.30 am*

2314. The second point concerns the number of public-sector jobs in Northern Ireland. Wildly varying statistics are given about those jobs compared to the private sector. The data that we have indicate that the Northern Ireland public sector accounts for 27·1% of employee jobs, compared to 21% in the UK. It could be said that the Northern Ireland figure is higher, but again, that would lead to regional comparisons and comparing like with like. The figure of 27·1% rises to 31·4% if you include reserved functions, such as security and UK central Government Departments.

2315. A figure of 60% is sometimes quoted for public-sector jobs in Northern Ireland. That is not a true figure. If every conceivable public-sector job is included, that figure is around 30%. However, the health and education sectors account for 70% of that 30% — those are frontline staff. No matter what argument is made about the size of the public sector, the number of staff in the health and education sectors will not fundamentally change, because the trend is to employ more staff to provide more priority services. It is therefore important that the data and their relevance are understood. We argue that public services should be staffed to meet the public needs, no more and no less.

2316. The third point, which is relevant to the Northern Ireland economy, is the trend advocated and pursued by direct rule Ministers and the Strategic Investment Board to shift jobs from public services to the private sector through private finance initiatives (PFI). Of the many instances of that, two current examples come to mind. First, Civil Service personnel work is being shifted to the private sector, with

the loss of around 600 jobs. Secondly, the Civil Service accommodation estate is being shifted. Around 76 Government buildings are being shifted to the private sector, with the potential loss of 500 Civil Service jobs.

2317. Some have argued that that is part of the so-called rebalancing of the economy; others have argued that it is designed to incentivise the private sector in Northern Ireland. We fundamentally disagree with that: it is our considered view that PFI mechanisms do not ultimately mean better value for money for the taxpayer.

2318. However, in the context of the Northern Ireland economy, the use of PFI for public service infrastructure and delivery of the type that I have indicated is not in the interests of Northern Ireland business. The key bidders for those contracts are not indigenous companies. For example, the bidders for the Civil Service buildings include a company called Mapeley. That is a Bermuda-based company that has been criticised by the House of Commons Public Accounts Committee for having a similar contract with the Inland Revenue but obviously not paying tax in the UK on that contract.

2319. We are concerned about the process and programme of private finance initiatives in Northern Ireland. Not only do we disagree with PFI from the point of view of how public services should be delivered, it could be damaging to the Northern Ireland economy. It is important that that point is understood and dealt with.

2320. The fourth and last point I wish to make in relation to the economy concerns the Review of Public Administration (RPA). The Committee may not have considered that RPA is highly relevant to its considerations on the impediments to the economy or on how matters might progress. However, the relevance of RPA is that it will mean massive change in public service delivery and, potentially, the location of public service jobs across Northern Ireland.

2321. Our concern is that the trend will be to centralise jobs in the greater Belfast area as part of the outworking of RPA, and there is already evidence of that. For example, Departments — whatever number may exist, and Peter Hain expressed his views on that recently — are

planning to locate in the central Belfast area or in the Stormont Estate. There is a clear statement of policy that two Departments, now based in Bangor, should be moved back to Belfast or to the Stormont Estate. There are major questions about where the policy on the dispersal of public service jobs across Northern Ireland now stands and where jobs will be located as RPA works its way through.

2322. Public service jobs have a big impact on local economies. For example, locating 500 public-service jobs in Omagh will impact on the local economy there. Removing them will also have a big impact. There is a major issue in relation to the economy of Northern Ireland flowing from the RPA, reinforcing the need, which we have already expressed, for a proper examination of the RPA process from the point of view of policies on dispersal and equality and its impact on the rural economy as regards the location of jobs.

2323. Those are the points that I want to emphasise on the relevance of public-sector issues and the importance of a debate on public sector versus private sector in relation to the economy.

2324. **Mr Bunting:** Following on from that, there is a lack of a manufacturing base in Northern Ireland. Traditional manufacturing industries have been haemorrhaging and in many cases have disappeared. Much play has been made, particularly by the Northern Ireland Business Alliance and many other commentators, on the issue of corporation tax and how we can best drive the Northern Ireland economy.

2325. Our view is based primarily on the fact that analysis, which shows that corporation tax has been the primary factor driving the Republic of Ireland's economy, does not stand up to examination. When the Celtic tiger was born — in the embryonic sense — the corporation tax rate in the Republic of Ireland was 47%. Other than corporation tax, a range of contributing factors have been involved; and, by the way, corporation tax was only reduced over the past seven years when the economy in the Republic of Ireland was well-rooted and was driving forward.

2326. The pragmatic view is that such a reduction will not happen in the United Kingdom and Northern Ireland. The Treasury will not allow it to happen because of competition from Wales and the north-east of England, etc. It is a no-no.

2327. We advocate having particular criteria under which companies would be rewarded amounts that they would gain from reduced corporation tax in a grant-aided manner. When Northern Ireland advocates a devolutionary process once again, the Treasury will still control fiscal matters. However, the allocation of grants can be within the domain of the Northern Ireland Assembly.

2328. Our view is that grant aid should be equivalent to the difference between the corporation tax rates in the Republic of Ireland and Northern Ireland. It should be used as a reward to help companies with R&D or, where possible and where there is a concentration of SMEs, be targeted at the dynamic clustering and networking of suppliers, sub-suppliers, sales outlets, public agencies and cross-border networks. Eighty percent of economic activity in Northern Ireland is accounted for by SMEs. We are saying that that is where such rewards should be placed. They should be based on performance indicators.

2329. We believe also in the creation of a range of trade-association run business networks. Businesses would pay a fee to join a trade association in which it could share market intelligence and technology transfer and diffusion. Where possible, the Government would fund technology acquisition grants for SMEs. Only network-registered companies could avail of those Government grants, equivalent to taxes liable in excess of the 12·5% profits.

2330. One other criterion would be productivity. If a productivity indicator showed that a company was increasing its exports by a certain percentage, it would also be entitled to receive those grants.

2331. This is not just a scattergun approach. Not every company would receive a reduction in its corporation tax. There is no guarantee of results or that jobs and wealth could be created and reinvested. The argument for a blanket reduction

in corporation tax is ill thought out and, for some of the reasons that I have given, has many flaws.

2332. Esmond Birnie mentioned transfer pricing and the EU approach to harmonisation of taxation. It is better that those decisions come from our democratically accountable Assembly and that grants are based on proper criteria.

2333. In public procurement, £16 billion is going to be invested in Northern Ireland. We are of the opinion that within the terms of the relevant EU legislation, tackling social disadvantage and addressing the problem of economic inactivity could be built into that procurement programme. For example, in the Titanic Quarter, if “Bunting Construction Company” wanted to tender for a job requiring 200 craft workers, I would be obliged to take on 50 apprentices from economically disadvantaged communities.

2334. The European Union’s Recital 33, which regulates public procurement, outlines a range of measures to tackle disadvantage and long-term unemployment through, for example, training young people. We advocate that within that public procurement policy — which spends public money, after all — the tendering system should have measures built in to tackle disadvantage and to help those who have fallen through the net of the education system.

2335. Currently, construction is the only identifiable growth industry in Northern Ireland. In our public procurement subcommittee, we work under the aegis of the Secretary of State and the Central Procurement Directorate. We are also working with the Secretary of State to regulate the construction industry, which is riddled with the “bogus self-employed”. We hope that new revenue regulations to be introduced next year will eliminate some of that.

2336. It is also imperative that the apprenticeship system is regulated and will no longer be associated with Jobskills, through which people were paid £40 a week and had no employment rights because they had no employers. In reality, their employer was the Department for Employment and Learning. Michael may comment on that later, but the construction sector must be

regulated in such way creates opportunities to improve skills and to learn in the workplace.

2337. Learning in the workplace and lifelong learning are crucial to the improvement of skills in the population, particularly among the 47% who left the education system without any qualifications. Lifelong learning, as you aware, is a European phenomenon and was part of the Lisbon Agreement. The British Government are pumping millions of pounds into it.

2338. Our difficulty in Northern Ireland is that many employers are reluctant to engage with us on this scheme, whereby their training costs are paid for by the British Government and through the aegis of the trade unions and workplace learning.

2339. We have had huge difficulty, and I will give you the example of the Victoria Square site. We could not get agreement to run a workplace-learning project there, even though the contractor employs over 200 or 300 people in construction jobs, particularly as general operatives. We must improve the skills of a huge range of people in Northern Ireland, and we must concentrate resources on sciences and technology in higher education. We should have enough accountants and solicitors by now, and I mean no disrespect to those professions. Sorry, Peter, I am not talking about you. *[Laughter.]*

2340. **Mr Ford:** He is a barrister.

2341. **Mr Bunting:** Worse again.

2342. I do not want to compare Northern Ireland too much with the Republic of Ireland, but we have a land border and we must deal with that. A pharmaceutical company in Clonmel in County Tipperary announced recently that it was creating 460 jobs. For any of you who know Clonmel, it is quite a small town far out and decentralised from many areas. The crucial factor about those 460 jobs is that the company hired 80 people with PhDs to conduct research and development. If, out of a workforce of 460, that company is hiring 80 people with PhDs, there is no danger of it moving to east Asia any time soon. We need that type of inward investment in Northern Ireland.

11.45 am

2343. Northern Ireland has had a brain drain, particularly from one side of the community, and that has caused loads of problems. We need to build all-island economic synergies or cross-border economic synergies — whichever description you choose. Transport 21 in the Republic of Ireland is building up the infrastructure on the west coast. We believe that that initiative should be driven forward and that Northern Ireland should avail of it up through Enniskillen, Strabane and Omagh, and as far as Derry/Londonderry. In that context, we would also decentralise our economy towards the western part of Northern Ireland, which, with good infrastructure, would, hopefully, create some degree of inward investment in that area. We should avail of that cross-border dynamic.

2344. Northern Ireland must have cross-border economic activity, and we must remove the blockages that inhibit a lot of cross-border activity. I must emphasise that that is an economic and social view and not a constitutional position. We can say that InterTradeIreland is wonderful, etc, but the barriers to that cross-border activity are centred on the lack of labour mobility, transport infrastructure and mutual recognition of skills and accreditations between the Republic and Northern Ireland. As well as that, the system of banking and bank charges is prohibitive. A transaction from the Republic to a Northern Ireland bank incurs quite extensive charges. Those issues must be addressed.

2345. Last, but not least, I return to our argument that devolution is imperative. To drive a situation similar to that in the Republic of Ireland, we need to build — I hesitate to use the word partnership, because it is much devalued — a social compact between employers, politicians, trade unions and the community and voluntary sector. The compact does not have to take all from the Republic of Ireland, but should take lessons on the social and economic way forward. Northern Ireland needs to take that approach rather than maintain the adversarial conditions in which a lot of its dealings have taken place, particularly on the industrial front and between the businesses, trade unions and employees.

2346. Northern Ireland must get away from the low-pay, low-skilled industry that it has attracted, which really is another failure. Through the Freedom of Information Act 2000, we requested documentation from the four revenue compliance officers in Northern Ireland whose job it is to ensure that employers conform to the minimum wage. On 65% of visits, they discovered that employers were not paying the minimum wage. In Northern Ireland, there is huge exploitation of workers. If that were rolled out to all the industries and areas that the revenue compliance officers could have visited, it would show a shocking picture of horrendous exploitation.

2347. NICICTU has huge anecdotal evidence of migrant workers being exploited. Migrant workers are very welcome wherever they work in Northern Ireland. However, there is further anecdotal evidence of the displacement of indigenous workers by migrant workers, with one case involving 50 workers in a factory in Monkstown that makes either radiators or windows. In that sense, the influx of migrant workers also creates a recipe for unrest, social upheaval and racism, so we must be careful.

2348. Both the previous Stormont Government and the Assembly had the autonomy to introduce and implement specific employment rights. That is another reason why NICICTU advocates the democratic accountability that is part of devolution.

2349. **The Chairman (Mr Molloy):** Will you take a couple of questions, Peter, because we are running out of time?

2350. **Mr Bunting:** My last point is the lack of emphasis on the social economy; I have already dealt with vocational training.

2351. **Mr Ford:** Peter, you said that you did not believe that the lower rate of corporation tax in the Republic was the primary factor in its economic success. You emphasised support for research and development rather than a blanket reduction in corporation tax. If the Treasury agreed to reduce the rate of corporation tax in Northern Ireland to 12.5%, would NICICTU oppose that in principle or is its opposition based on its pragmatic consideration that it



would be easier to attain support for research and development?

2352. **Mr Bunting:** I would oppose it in principle, because, in one sense, it is public money and because of transfer pricing. Money allocated to companies and employers must be results-based: it must be given on the premise that companies will be up skilled, results will improve and wealth and job creation will emanate from the award of such grants.

2353. However, David, if the Treasury succumbs to that argument, give me smelling salts and pick me up off the floor.

2354. **Mr Ford:** My second point relates to part of John Corey's presentation. I accept the argument that in Northern Ireland, the public sector is not too big; rather, the private sector is too small. However, we must consider our history — and I speak as a former employee of the public sector. As a former NIPSA member, I now find myself sitting beside a doctor, looking across at a teacher, while a barrister has just left the room. How do we deal with the perception that, for many people, entering an established profession is the height of attainment? In trying to increase innovation and enterprise in Northern Ireland, how do we avoid people thinking that the best employment routes are into established professions rather than going into business to build the economy? Your general point seemed to be that there should be less dependence on FDI and more on indigenous growth.

2355. **Mr Corey:** I am not sure how to persuade people that the best careers lie outside the professions. Naturally, parents look towards the traditional professions, so they may need more persuasion than young people.

2356. I am not convinced that those who enter the professions necessarily enter public services. Many professions span both the public and private sectors.

2357. Peter Bunting's more relevant point is that it seems reasonable to promote particular sectors in education, such as science, engineering and technology. In the past, that would have been done in a more structured way when Government would say that to encourage people

to enter the professions, they wished to target resources at university education. Therefore, the economy is tied back into education. I am not sure whether that fully answers your question. It is a difficult issue.

2358. I want to return to the question on corporation tax. From a trade union point of view, our primary interest is to secure sustainable, highly skilled, well-paid employment, which would lead to a good economy. We are not convinced that reducing corporation tax in Northern Ireland to the levels of the Irish Republic would automatically improve the economy. In fact, the evidence points to the contrary.

2359. If the grant route, rather than the corporation tax route, is used to incentivise investment in companies, that will be in the control of a local devolved administration. If the corporation tax route is chosen, that will be in the control of the Treasury. Northern Ireland would have no control because the Treasury could change its mind. The corporation tax issue requires further examination. The social partnership element of the Irish Republic's economy, which dates back to 1987, plays a significant role that country's economic growth.

2360. **Dr McDonnell:** Thank you for your stimulating presentation.

2361. How can we tie the economy to the creation of high-paid jobs? How will we tie that into educational underachievement? Although 50% of our young people go to university and are successful, I am worried about the 20% to 25% who fall off the ledge. That is a waste to the economy and to everything that we want to achieve.

2362. **Mr Bunting:** You are quite right. Recently, NICICTU placed an advertisement for a basic administrative position; of the 10 to 12 people who applied for the job, five had degrees. We have an educated population, but how do we attract investment? Grants can be given to research and development. The difference between 12.5% corporation tax and whatever profits are made might well be above that.

2363. There must be fiscal incentives to attract inward investment and drive the Northern

Ireland economy. That must include job creation and wealth creation. We must change the curricula in many of our further and higher education colleges to meet the needs of particular industries, such as biomedical sciences. For example, the Republic of Ireland had “regional colleges”, most of which are now “institutes of technology”. In the Waterford and east Cork area, there is a cluster of pharmaceutical and biomedical companies. Waterford Institute of Technology changed its curricula, particularly in the sciences and technology, to meet the needs and demands of those companies. We may have many highly educated people in Northern Ireland, but are they educated in the right disciplines?

2364. There must be synergy between what we want, what type of industries can locate here and whether we have the educated labour market that will feed into that and produce results, particularly in R&D, for the companies that we must attract to Northern Ireland.

*12.00 noon*

2365. **Mr Dallat:** I was interested in your revelation that you are in discussions about Government procurement policies. I wonder how damaging the effect of software is, particularly when contracts worth very large amounts have displaced SMEs, particularly in rural areas. I understand a personal identification number (PIN) is required to access a website to see when those contracts start. How damaging is that to employees’ rights? When employees lose jobs, they are forced to come back as subcontractors, working for less money under less favourable conditions. What should a new Assembly do to change that? Those measures were sold on the premise of economies of scale. The public were told that they would get a better service at a lower price. I have received evidence that that has been a complete shambles.

2366. **Mr Kiddle:** I take it that you are talking about the construction industry?

2367. **Mr Dallat:** Yes, and the Roads Service.

2368. **Mr Kiddle:** The construction industry in Northern Ireland is fragmented, in that 60% to 70% of people employed in that industry are what we term “bogus self-employed”. Although

apprenticeships are being taken up, they are administered through the Department for Employment and Learning’s Jobskills scheme.

2369. Apprentices have absolutely no connection with the company for which they are work. Basically, they go to a technical college, which places them with a company that receives grant aid until the apprentice reaches National Vocational Qualification stage 2 (NVQ2), which takes roughly 18 months. During that time, apprentices are used to make tea and are not taught the necessary skills. When they go to the technical college for the day or two on which they are supposed to, often the teacher — whether of joinery, bricklaying, plastering etc — is not there, so a teacher from another department, such as English or history comes and says: “Right, boys and girls, just do what you normally do. I am going to do some marking.” They are not being trained.

2370. Once apprentices reach NVQ2, they are thrown on to the scrap heap because the employer, under that scheme, from NVQ2 to NVQ3, is supposed to employ them under proper terms and conditions until they finish. If members want evidence of that, I can provide as much as they want: we get about eight or nine calls a week from irate parents, saying exactly that. The employer then goes to the technical college and picks up another couple of lads. It is mainly boys who take apprenticeships in construction. We have not yet managed to bring young ladies into the industry because of its nature.

2371. There is a raft of things that are wrong with the construction industry. We have proposed a new apprenticeship scheme, which would revert to the old four-year apprenticeship. The first year would be spent at a technical college, where apprentices would learn all about health and safety and the essential skills that are lacking in many young people who leave schools today. They also undertake job sampling, involving jobs such as plastering, bricklaying and all the traditional trades. That enables them to pick a trade. After that initial year, a company takes them on from day one for a three-years apprenticeship under a proper contract of employment, which is important because it gives

them a sense of belonging and employment rights. That means that they cannot be exploited by an employer and thrown on to the scrap heap halfway through a course. That is very important.

2372. Another area that we are considering is whether the year that apprentices currently complete in technical colleges could be done during a young person's final year at school. Coming up to pupils' final years, teachers know who will stay to do GCSEs or A levels and move on to the next academic year and who will not. Creating the scheme that I have mentioned would give those people who lack academic skills a vocational area to enter.

2373. We are also discussing social inclusion and, particularly, migrant workers. We have already given evidence to the Secretary of State about the exploitation of migrant workers by construction companies in Northern Ireland, and we will continue to do so.

2374. **Mr Bunting:** To come back to what the Assembly could do, the wording of the conditions for awarding contracts is now more subjective. Article 53 of European Council Directive 2004/18/EC provides that public contracts should be awarded "to the tender most economically advantageous from the point of view of the contracting authority" as the determining factor, as opposed to the lowest price offer. If it were in charge of its own future, the Assembly could insist, lobby or decide to put small subcontractors in there as being economically advantageous to Northern Ireland.

2375. **Mr Dallat:** Thank you. That is very useful.

2376. **Mr Corey:** It is reasonable for public procurement policy in Northern Ireland to be tailored to the structure of the local economy and its enterprises. If there is a high preponderance of small businesses, the policy should enable those businesses to compete.

2377. I recall having that argument 10 years ago with the Northern Ireland Housing Executive (NIHE) over contracting out work, when NIHE was seeking to privatise its direct labour organisation. We argued that a mixed system must be maintained to allow small local

businesses to compete for work. One thing that has changed with public procurement is that it has tended to go with what is perceived to be the lowest price and, therefore, the most economical option.

2378. **The Chairman (Mr Molloy):** We are again running out of time. Members should be concise.

2379. **Ms Gildernew:** As mentioned in your report, cleaning contracts in hospitals were subcontracted and then there was an outbreak of MRSA. It does not necessarily add value to do that; corners can be cut, and it failed in that scenario.

2380. Your presentation was very good. We have heard from many economists and capitalists, and it was important to hear your views on the social economy and our responsibility to ensure that there is employment near to where people live. Someone who has a four-hour daily commute from Belfast to Enniskillen has no time or quality of life. They cannot be at home to help their children with homework. We have a social responsibility to ensure that people can have jobs near their homes, including the west.

2381. I want to tease out your ideas about the economic corridor along the west coast of Ireland, which feeds into Enniskillen, Strabane and Derry. How much does the infrastructure discriminate against us? If you travel from Limerick through to Galway and on to Sligo, the roads infrastructure starts to fall below standard. Will we miss out on that economic corridor?

2382. **Mr Bunting:** You will certainly miss out on the economic corridor if the infrastructure in the west of Northern Ireland is not drastically improved. I noticed yesterday a few views about improving the road links between Derry, Strabane, and Omagh. Ten years ago, I often travelled from Dublin to Sligo to Donegal or Enniskillen, and I knew when I was in Northern Ireland because of the quality of the roads. That is no longer the case; quite the opposite.

2383. I am interested in building the transport infrastructure to attract investment into western — and the rest of — Northern Ireland. It is

worth noting that locating everything in the centre of Dublin, for example, has had adverse implications for young people trying to get onto the property ladder and driven up prices in restaurant, bars and retail for everyone.

2384. I am also interested in other aspects of decentralisation. A feature of Northern Ireland policy is targeting social need (TSN). As well as the more obvious needs in Belfast, there are many small rural communities across Northern Ireland that are suffering huge disadvantage, such as lack of transport and lack of access to education, night schools and childcare — a whole range of services. Both targeting social need and building the infrastructure of the west of Northern Ireland are vital to attract foreign direct investment and to encourage growth of indigenous employment. We would also like to see Lisahally port developed. That is crucial to the development of the whole north-west area.

2385. **Mr Beggs:** You said earlier that you oppose a reduction in corporation tax, yet it has been pointed out to us that that is a very important measure for attracting new foreign direct investment. We accept that a reduction will be difficult to achieve, but do you accept that it could be the key tool in attracting new foreign direct investment, which would mean new jobs? If it were limited to that, would you still oppose it?

2386. With regard to R&D tax credit, it has been widely accepted that it would be a sensible policy. However, it is difficult to change the behavior of small firms, which predominate in Northern Ireland and which may be slow to take up that. You advocate R&D grants. That is a good idea, but how is it to be funded? From our limited block grant, more is now spent on health, education and infrastructure, so from which Departments would you take the moneys required for R&D grants? The Department of Enterprise, Trade and Investment's budget has been cut.

2387. **Mr Bunting:** That is your responsibility, Roy, not mine.

2388. **Mr Beggs:** At present it is the responsibility of the direct rule Ministers.

2389. **Mr Bunting:** I accept that.

2390. **Mr Beggs:** So which Department would you take money from to provide these grants?

2391. **Mr Bunting:** Northern Ireland is a post-conflict society, and it has not really benefited in a sustainable manner from European funding. It is crucial that there be a peace dividend, and that has to come from the British Government to build up Northern Ireland. That is an economic argument. Either we can remain a drain on the Treasury, or we can become a net contributor to it. It is in Britain's long-term interest to invest in the development of a sustainable economy. The economic argument is that you have to speculate to accumulate. I am not interested in where the money for the grants comes from, but it must not be taken from Joe Bloggs out there, who is suffering enough. I commented earlier on the lack of disposable income and on the haemorrhaging of the disposable income that is available, which will have an adverse effect on jobs in Northern Ireland, and particularly in the west. So I cannot answer your question, but I shall reflect on it and come back to you.

2392. In relation to corporation tax, we believe that businesses here need another source of funding that would encourage R&D, the clustering of SMEs, and the development of business networks, and it must be productivity- and performance-related. Many workers get paid by their results. We are saying to companies that it is not a case of throwing good money after bad, that it has to be performance-related. The proposal on corporation tax would apply to all companies.

*12.15 pm*

2393. We are saying that the benefits of the equivalent of corporation tax should be grant aid for companies that develop R&D and engage in business networks, particularly SMEs, in which market intelligence is shared. There should be benefits for technology transfers, for an increase in productivity or exports, or for job creation. Those should be rewarded with the equivalent of what we are all talking about — the difference between the corporation taxation levels here and in the Republic of Ireland.



2394. It is not simply a matter of throwing money away, because there is no guarantee that it will make a difference. If every company avails itself of corporation tax reductions, who can guarantee that it will make a difference to anyone but the individual who owns the company? How does it tackle social disadvantage, create employment or employ those who have gone through the education system for which we have all paid? It does not, unless we get results.

2395. **Mr Beggs:** My question was based on new foreign direct investment.

2396. Do you agree that a cocktail of policies may need to be developed to help a diverse range of companies?

2397. **Mr Bunting:** I want to make two quotations; I do not wish to keep reading. A tax wedge is significant, but there is no guarantee that a lower rate of corporation tax will lead to more jobs or to better quality jobs. There was a period in the Irish Republic when there was virtually jobless growth. In the period when employment grew substantially, tax reductions contributed to significant increases in real take-home pay. The tax wedge is the difference between what it costs an employer to employ someone and what that person takes home. The reduction in the tax wedge contributed to employment growth in the Republic of Ireland, especially for the lower-paid. According to the Republic's National Competitiveness Council:

*"the low labour 'tax wedge' ... now represents a competitive advantage for Ireland"*

2398. through the PAYE system, the tax wedge and what that costs. The Organization for Economic Co-operation and Development stated:

*"It is clear from the literature review that the effects of taxes on economic performance are ambiguous in some areas, and unsettled and controversial in others."*

2399. Clearly there is a whole debate about whether corporation tax is really the panacea for all our ills. I doubt very much that it is. What do we need? We need a workforce educated in science and technology. Invest Northern Ireland's strategy for 2006-08 says that it is about

investment in wealth — it is about investment in wealth and investment in jobs. From our perspective, that wealth should create jobs. We are not alone in thinking that.

2400. There are two issues: one concerns where an investment goes — R&D creating sustainable employment is one example; and the other is that Northern Ireland's infrastructure must ensure easy access and egress to and from the country, but particularly for exports.

2401. We have had a conversation with Mr Beggs about this before. Trying to avail ourselves of the Republic of Ireland's success in cross-border economic activity — I use that term because I know that people are offended by "all-island" — is crucial to Northern Ireland. In the very capitalist world in which we all live, I have never known a situation in which capital is not chasing capital. Capitalism's very nature is for capital to chase capital.

2402. Sir George Quigley said earlier that only 7% of our exports are to the Republic of Ireland. That is absolute madness. We must remove the blockages to cross-border activity, such as labour mobility, banking charges and mutual recognition of accreditations, in order to achieve a flow back and forward.

2403. **The Chairman (Mr Molloy):** We could keep going.

2404. **Mr Bunting:** Yes, we could talk all day.

2405. **Mr McElduff:** Most witnesses have told us that it is in our best economic interests for the political institutions to be restored. I ask ICTU to comment on that view.

2406. **Mr Bunting:** I wish to emphasise that NICICTU makes autonomous decisions in Northern Ireland on matters that affect its policy, and is not impacted on by those decisions made in the Republic of Ireland.

2407. Trade union policy is to support the Good Friday Agreement. We believe that the Assembly is crucial to the welfare of the people of Northern Ireland, irrespective of their political or religious affiliation.

2408. The fact that the disadvantaged face a domestic increase in rates, the haemorrhaging

of jobs, the imposition of water charges, the privatisation of public services and the loss of our manufacturing industry is not all your fault; it is the fault of the global economy. The only way to rectify it — and I come back to the fiscal versus grant-aided argument as well — is by getting our Assembly back up and working on behalf of the people of Northern Ireland. We say that purely from an economic and social standpoint.

2409. **The Chairman (Mr Molloy):** That brings NICICTU's evidence to a successful conclusion. Thank you very much for your presentation and for answering questions. I am sorry that time has beaten us.

2410. **Mr Bunting:** Thank you, Mr Chairman, for the invitation. 'Not Old Wine in New Bottles' is quite a broad canvas, but we are working on several streams that contribute to it. We hope that as it goes forward, as the new phraseology has it, we will send you copies of the more developed strategies in it.

2411. **The Chairman (Mr Molloy):** We keep returning to the subgroup's terms of reference. Sometimes, we drift into all sorts of variations on its themes.

2412. **Mr McNarry:** Barry McElduff does that. He keeps drifting into discussions on the institutions. There is another Committee for that, Mr Chairman.

2413. **The Chairman (Mr Molloy):** I know, but he is not on it.

2414. **Dr McDonnell:** Barry is only learning; he is only new here.

2415. **Ms Gildernew:** Please do not patronise Barry McElduff when he is not here to defend himself. *[Laughter.]*

2416. **Dr McDonnell:** One of the reasons that there are economic problems in Fermanagh and Tyrone is that — *[Laughter.]*

2417. **The Chairman (Mr Molloy):** You may not want this recorded.

2418. **Mr Weir:** It is like one of those "Complete the following in not more than 10 words" sentences.

2419. **The Committee Clerk:** You are still being recorded for Hansard purposes.

2420. **Mr McNarry:** Somebody made a comment about your hairstyle, and that is in the Hansard report.

2421. **Mr Weir:** I cannot see Hansard actually recording this.

2422. **The Chairman (Mr Molloy):** Gentlemen, you are very welcome. Thank you for coming along today. The subgroup is trying to condense as much as possible into the time available. There will be another presentation after yours, and I ask members to be concise with their questions. Would you like to open with a short presentation?

2423. **Mr Will Haire (Department of Education):** Thank you very much. I hope that the subgroup has received our paper. We welcome this opportunity because we believe that the education sector can make a very important contribution to the subgroup's agenda and to economic development. Former US President Bill Clinton recently emphasised that in a knowledge-based economy, what you earn is based on what you learn. I suppose that that is where the key aspect of our thinking comes from.

2424. There are many challenges for education. We must make sure that we make the maximum contribution, providing a base for skills, including numeracy and literacy, and interpersonal skills in schools by how we play our role.

2425. Our paper sets out the four main questions that challenge us. First, is the overall performance of the school system sufficiently strong for the needs of the economy? Secondly, are our standards of literacy and numeracy, in particular, improving at the appropriate pace? Thirdly, does the curriculum give sufficient emphasis to the needs of the economy? Finally, and related to that obviously, is the provision for careers, employability and enterprise sufficiently effective?

2426. Those are the four areas in which we are trying to provide a lead at the moment. I would like to quickly run through some of the themes.

2427. Truly, there are great strengths in many aspects of the Northern Ireland education system. We have a higher percentage of young people achieving two As at GCSE level than England. We have had a drop in the number of pupils leaving school without any qualifications. However, we cannot be complacent about our position. We are seeing England improving faster in some ways and moving closer to us. If you take the whole gamut of GCSEs, England is ahead of us because of our long tail.

2428. Another major issue for us is that there are 20 secondary schools in which 20% of pupils, or fewer, get five As at GCSE level. Hence, a lot of the provisions in the Education (Northern Ireland) Order 2006 are trying to address those issues and include a revised curriculum and entitlement framework, and new arrangements for admission to the post-primary sector. A major issue that the Department is pushing ahead on is school improvement.

2429. Northern Ireland stands up well internationally on numeracy and literacy skills. We are in the upper part of the Organization for Economic Co-operation and Development studies, which is encouraging. However, once again, we are not improving as fast as we would like, and there are many schools in which we have major problems in numeracy and literacy and where we are not seeing that improvement. Numeracy and literacy are the bases for all skills. We are not getting that done, and it is key. Adult literacy and numeracy problems come from that, and it is a major challenge.

*12.30 pm*

2430. I have a strong feeling that the curriculum that was introduced in 1989-90 pushed us towards focusing on an academic style of education. That fits in with the fact that 50% of young people go on to universities, as our Department for Employment and Learning (DEL) colleagues will tell you. That statistic is very powerful in some ways, but we are perhaps pushing people too far into an academic route.

2431. We are concerned that the more professional and technical areas have perhaps lost out, and that some of the skill shortages in areas such as information and communication

technology (ICT), construction and engineering may have resulted from the curriculum's academic focus.

2432. We are seeing some radical shifts. The 2006 Order is obviously shifting the curriculum, but we have already lightened the curriculum for 14- to 16-year-olds. DEL and the Department of Education have been working on the vocational enhancement programme, which will create better connections between further education (FE), training and schools. We will use that and other recent packages to establish more effective connections between schools' pre-apprenticeship work and training and FE. There are encouraging signs from that.

2433. There are also encouraging signs that grammar schools are teaching more vocational subjects. The "Learning for Life and Work" strand of the new curriculum is being promoted. The new curriculum entitlement framework means that everyone has access to more vocational courses. It also means that there has obviously been a big investment in ICT.

2434. Education for employability is an element of the "Learning for Life and Work" strand, and we are focusing on secondary-level pupils to help them prepare and gain the skills and qualities that they need for their careers. Therefore, a stronger emphasis on career planning has been developed in the curriculum. The Departments are working together to radically review careers education, which has not been good enough.

2435. We are also working on establishing better links between enterprise and business. There are already schemes on youth enterprise and connecting with business. The Departments are also working on the certificate in business enterprise so that young people are prepared for work in the business world.

2436. I hope that I have given you a quick overview. Those four areas are key to the process.

2437. **The Chairman (Mr Molloy):** I ask members to keep strictly to asking questions.

2438. **Mr McNarry:** To paraphrase the third paragraph of the Department's submission, you say that, given the extent of the economic

problems and changes that were alluded to, the education system must be aware of the importance of its contribution, and so on. The submission then lists the key areas in the future of the economy where schools have a major role to play.

2439. For Mr Haire's benefit, the evidence given so far, particularly from the business and industrial sectors, has clearly shown that they attach importance to education. However, marked in that evidence is decreasing vocational attainment. That remains at a hardy level, which poses the question of tackling underachievement.

2440. As permanent secretary, will you assure the subgroup that the reforms being introduced by your Department will satisfactorily address the concerns of today's captains of industry about the need for vocational skills? Will those reforms address the terms of reference of this subgroup, one of which is to discuss impediments to the development of the economy? I ask because I would not like this subgroup, in light of events that are taking place in education, to suggest that educational reforms could cause a potential impediment to the development of our economy.

2441. **Mr Haire:** It is important to see our reforms as a basket of reforms. Much of the debate has focused on particular aspects of those reforms. The key elements are to have a wider curriculum, to ensure that everyone has access to that curriculum and to ensure maximum quality throughout the system.

2442. The 2006 Order is designed to produce a new curriculum across the education process and to create greater flexibility so that people can access a wider range of the courses that business wants. However, it is also about helping young people and their parents choose the appropriate courses at a later stage.

2443. All the international evidence indicates that, by the time children reach the age of about 14, business wants them to start focusing on those areas. Up to that stage, the curriculum should be kept broad. That is what the 2006 Order is about. The key element in the process, which has not been debated in Northern Ireland, is that we must empower our schools and focus

on quality educational outcomes. We must examine those outcomes and focus our debate more directly, whatever our structural issues.

2444. People can access a wider range of the courses that businesses ask for. However, it is also a matter of helping young people — and their parents — to choose the appropriate courses at a later age. All the international evidence indicates that students should start to focus on those areas from the age of 14, and that the curriculum should be kept broad until then. That is what the Education (Northern Ireland) Order 2006 is about.

2445. The key element in the whole process, which has not been debated in Northern Ireland, is to empower our schools and to focus on quality educational outcomes. Those outcomes and outputs must be the focus of our debate, much more so than they have been to date. That is the key, regardless of the structural issues. I assure members that these policies are key, and pushing this forward is key to meeting the needs of business. In discussions with the Department, the business world has always welcomed the process being broadened in that way.

2446. **Mr McNarry:** I will not ask the permanent secretary for a response to my question now — unless he can give it — but it would be most helpful if he could respond in writing as quickly as possible. He mentioned contact with business. What education and skills has the business world asked for? It would be most helpful to find out what the business world has asked of the Department and what the Department's response has been.

2447. **Mr Haire:** I am happy to do that. Often the business world looks for literacy, numeracy and interpersonal skills. Perhaps the question would be better answered by a joint response from my Department and DEL.

2448. **Mr Weir:** Many of us have grave concerns about the headline issues involving educational changes, which some feel will have detrimental educational and economic impacts.

2449. Mr Haire, I welcome you to the Committee. I am sure that you are glad that the subgroup's remit does not include cuts to special needs



education, school closures or the future of the South Eastern Education and Library Board. I will focus on a couple of detailed points.

2450. As regards performance indicators, much evidence has been gathered on low levels of qualifications. Mr Haire, I would like you to come back with more information. You quoted a few performance indicator statistics. For the subgroup to make a judgement, particularly on trends in performance indicators, it would be useful if you could provide figures on high-level qualifications and on the percentages of people who leave school without any qualifications. The subgroup could consider the annual headline figures for the past 20 years, and the comparative figures for the rest of the UK. If the subgroup is to make recommendations, its research must be academically sound. It must not leave itself open to criticism.

2451. Secondly, although universities fall in DEL's remit, DE works closely with DEL. School-leavers in Northern Ireland still have relatively high achievement levels. Are you concerned that limited places in higher and further education here mean that Northern Ireland simply exports a large percentage of its best people, which weakens opportunities and employment capability?

2452. **Mr Haire:** I would be delighted to give the subgroup a range of statistics. We kept our paper short and did not include too many figures, but I can give you a raft of them.

2453. I am familiar with DEL, as I left it only six months ago. That Department produced a detailed paper about a year ago that considered the implications of the flow of students leaving Northern Ireland. Dr Aideen McGinley will be able to give the subgroup a copy of that paper. It is a complex issue. If more places are made available, will more students stay? Why do students leave? The paper attempts to flesh out those questions, and subsequent research will set out the pros and cons of the issue.

2454. It is an interesting question. There is no doubt that the loss of talented people from the region is a major issue. The question is: are we losing those talented people because the jobs are not here, or because the right skills are not

being encouraged? How do we turn that back? Consider the north-east of England. How many parts of England have lost jobs? The Republic lost many people for a long time. Working out how best to use higher education is very difficult.

2455. Pro rata, Northern Ireland produces twice as many doctors than any other region of the UK. That is a wonderful thing to do, but —

2456. **Ms Gildernew:** Is it a case of quantity over quality? *[Laughter.]*

2457. **Dr McDonnell:** Doctors are very good people.

2458. **Mr McNarry:** It is a pity you stayed. *[Laughter.]*

2459. **Mr Haire:** Our economy has focused on the public sector and the professions, so our education system has been somewhat skewed. Parents assume that those are safe jobs. If Northern Ireland is to generate wealth, how can that message be got across? That is why I emphasised the need to do a lot of work with industry and business — and parents — on the economic choices that will be available when the public sector gets smaller. Those are important issues.

2460. **Mr Weir:** There are two issues in relation to further and higher education. First, are those sectors sufficiently focused on wealth generation? Secondly, George Quigley referred to an issue that has been rumbling around for years. About ten years ago, when he was a member of the Dearing committee, it was estimated that around 40% of those students who went on to third-level education left Northern Ireland, and, of that percentage, 40% indicated that they would have stayed had there been places available. The fact that there is a cap on numbers in Northern Ireland highlights not only the skills mix that is required to move from university into employment, but the sheer lack of availability of places.

2461. Do you have any views on that?

2462. **Dr Robson Davison (Department of Education):** Again, this is outside the Department of Education's remit, but drawing on my DEL work, the issue boils down to how many of

those who leave Northern Ireland are reluctant leavers at the age of 18, and how many choose to leave. The work that Will refers to in DEL would suggest that it is a much smaller proportion than has been advanced in some of the arguments over the years.

2463. The percentage of leavers has been going down reasonably steadily. It is still between 25% and 28% of the annual cohort of higher education students. That amounts to there being about 3,500 or 4,000 students a year who leave for higher education in the Republic or in England, Scotland or Wales. It is a question of how many go through choice, and how many go because they cannot get their first-choice place at a local university. That is the core of the issue, and there are different views on the exact proportions.

2464. **Mr Haire:** Remember also that we are coming into the stage in tertiary education of dealing with the problems that we face in primary schools. In the near future, fewer 17 and 18 year olds will enter the system. Before more investment is targeted at universities, that decline must be considered.

2465. **Ms Gildernew:** There are two areas that I would like to cover. I will not refer to the science and technology curriculum, as we have already dealt with it. However, we must focus on primary schools and generating interest at a young age.

2466. The subgroup has received some very interesting presentations. John Simpson was here on Tuesday morning and talked about a situation in primary schools, specifically children of five, six or seven years of age whose:

*“behavioural patterns are no longer appropriate for an educational environment.”*

2467. He was referring to the youngest children in the education system who are not able to learn and grow there. That is a product of dysfunctional communities.

2468. Are measures being taken to support parents and, in order to empower schools, to create more co-operation between parents and schools? Morale in schools is very low.

12.45 pm

2469. I am 36. If I was punished at primary school and told my parents, I was punished again. If children are punished in schools now, their parents want to know why they have been chastised. There has been a cultural shift. What is being done to ensure that children are receptive to learning?

2470. Last week, InterTradeIreland made a presentation to the subgroup, and it would be worthwhile for you to read it. The presentation said that skills in border areas are the lowest and that educational attainment is lower than elsewhere in Northern Ireland. It said also that, on an island-wide basis, there are far fewer professionals and high earners in the North. The lack of skills in border areas — North and South — must be addressed. The border has been an impediment to attaining skills and being able to make a difference in the value-added economy.

2471. **Dr Davison:** I am surprised at that data. The Noble indicators for educational attainment suggest that the problem is much more urban than rural. There are major difficulties in rural areas, but it appears to be more of an urban problem.

2472. **Mr Haire:** We will consider that issue. Economic activity was mentioned also, where people with skills move away because they are looking for jobs that are not available here.

2473. To go back to Ms Gildernew's first issue, there are big challenges in early years education. Evidence shows that investment in early years is a key aspect. From November, the Department will take over responsibility for early years learning. Previously, it was split between the Department of Health, Social Services and Public Safety and the Department of Education. We invested heavily in nursery and pre-school provision, and indications are that we have met all parental requests for that. About 90% of parents want to take up pre-school places for three year olds onwards. To ensure the best support for pre-school children, the Department's job is to consider the whole process and the organisations that are involved.

2474. The second issue is the enriched curriculum process, the foundation stage, or the stage for P1 and P2 children. Children in Northern Ireland start school at a much younger age than anywhere else in Europe. All the evidence shows that children — especially boys — need a lot of work and training in social skills before they can move on to learning skills. The Department is freeing up that stage and putting in more classroom assistant support to try to help.

2475. With regard to formal reading, in the past, four year olds were sat down and given a book, but many children are not ready to do that now. However, there are others who are ready, and there could be more flexibility.

2476. The third aspect is extended schooling, which is very much about trying to give schools the ability to have breakfast clubs, after-school clubs and parent clubs to try to help with the school/parent/family breakdown. It is vital that parents are seen as educators and part of the education process.

2477. I have visited schools and talked to some parents groups. The parents said that their groups were great, as they had been terrified about coming into the schools, and the parent clubs had helped to break down that fear. It is absolutely vital, and the Department is moving on those areas. It is a challenge. Social issues are affecting schools now, and the schools must address that. New teachers especially must be made aware of the social work skills involved and understand that those skills are much more relevant now than in the more formally structured society of the past.

2478. **Mr Neeson:** Given that there are about 50,000 spare school places in Northern Ireland, how will the Department encourage a more integrated system of education? I am not talking about building new schools, but about sharing resources. Dr Davison was in Carrickfergus recently, where an A-level pilot scheme is due to start. Such a scheme has been successful in Ballycastle.

2479. Dr Michael Maguire from the Northern Ireland Business Alliance put forward the scenario of developing responsive education to

meet the needs of the developing economy. What is the Department doing about that?

2480. **Mr Haire:** Sir George Bain is conducting a strategic review of education, one aspect of which is to assist the Department. There has not been an effective planning process for schools; the process has been demand-led. The Department has not considered that issue with particular regard to shifting demographics: the impact of a nine-year decline in pupil numbers has not been thought through. Tough and complex decisions must be taken. It is also difficult to decide what is the best level or size of school to produce good quality education, taking into account that the needs of rural and urban areas will differ.

2481. Sir George Bain is helping the Department to examine the entire planning process. He is offering various views on that and is considering the best use of sharing. The figure of 50,000 spare school places sounds high, but there must always be some excess capacity in the system because people move around. However, the Department recognises that not only will that figure increase unless the issue is tackled, but that Northern Ireland does not have the right form of school estate to deal with the curriculum and the needs of young people. Various models must be considered to deal with that process.

2482. In the past couple of years, both DE and DEL have consciously gone out of their way to build a dialogue with business on the question of responsive education. DEL is setting up sector skills councils that relate to different business areas. Arising from that, we are considering pre-apprenticeships for young people from the age of 14 who might be interested in an apprenticeship or in business. Apprenticeships could be offered in a much wider range of jobs — for example, in financial services — and not only in the classic, more traditional skills.

2483. A benefit of that is that it helps people to decide where they want to focus their careers. A big problem with many of the DEL schemes was that they were attended by 16 year-olds who did not know what they wanted. They

bounced around trying out various options and were unsettled. You really want them to try to focus earlier, and the Department of Education is working with DEL on that.

2484. **Dr Davison:** Two dimensions of the revised curriculum provide the answer to Mr Neeson's question. It allows significant flexibility, unlike the 1988-89 curriculum, which was very constraining. For pupils over the age of 14, schools, teachers and principals now have much more freedom, within the revised curriculum framework, to respond to what is happening in their locality and to the needs of their particular district or county.

2485. Mr Neeson is correct to say that I was in Carrick, and I found what those in Ballycastle had to say most illuminating. The new curriculum will promote a much higher degree of collaboration in a system that previously strongly encouraged competition. The opportunity for collaboration is being opened up, and, interestingly, in some areas, people are grabbing that opportunity ahead of the actual legislative requirements to do so. The head teachers in Carrick have gone a long way towards setting up a structure that will enable them to look much more creatively at what should be done for 14 to 19 year olds. That model is emerging in other places and it will gather pace over time.

2486. **Mr Beggs:** Your submission contains an interesting statistic: in Northern Ireland, 1% fewer pupils leave school with no qualifications than in England. How can you be sure that the introduction of the comprehensive system will not remove that advantage and create more underachievement? How will you prevent that?

2487. My second question concerns the slow pace of change in education to reflect the needs of the economy — and I dare say that that question applies to the Department for Employment and Learning also. I remember being consulted on Curriculum 2000, and I highlighted the importance of vocational education meeting the needs of industry. Why has it taken six years to progress that issue? The pace is ridiculously slow.

2488. Your submission refers to a review of careers guidance, with a view to publishing a strategy for an all-age independent careers

guidance service. Mr Dallat and I were members of the Committee for Employment and Learning, which identified this issue in 2001-02. Four years later, the Department is still only creating policies. Do you not accept that an independent careers guidance service is more likely to reflect the needs of the local economy? When academics give careers guidance advice, there is a danger that they could promote their academic preferences.

2489. **Mr Haire:** You will want to raise some of those issues with the Department for Employment and Learning as well.

2490. Five per cent of young people leave school with no qualifications and that is 5% too many. You asked about the "comprehensive system", as you described it. The Department of Education's focus must be on more than structural issues. We must ensure that our education system gives everyone basic, useful and relevant qualifications. We must ensure also that we have a wider curriculum. The narrowness of our education structure has not met the needs of the 5% of young people who leave school with no qualifications. We need a wider range of courses and processes, and we are determined to achieve that.

2491. In relation to Curriculum 2000, my understanding is that there was a delay on Key Stage 3 because teachers were unhappy and had concerns about certain aspects. It went back for further consultation — it was very important that it was consulted on fully. That is where the delay came from. The good news is that, for some time, we have used our powers to disapply Key Stage 4 to free that up. We had already started to move.

2492. The Department for Employment and Learning undertook a review of careers guidance, which progressed many issues. Last year, Dr Davison, Catherine Bell and I examined those issues, and we believe that much more work needs to be done.

2493. Understandably, schools and colleges give careers advice, but they give that within an institution. Somebody has to stand outside the institutional structure and tell young people that there are other options. It is all very interesting.



The Education and Training Inspectorate (ETI) examined all the educational institutions in Newry and concluded that there is not enough width.

2494. **Mr Beggs:** Why is the pace of change so slow?

2495. **Dr Davison:** It is an interesting perspective. If half a dozen teachers were brought in here, they might have a different view, which would be that the Department is forcing change far too quickly. However, there is a serious point to be made, and I had better be careful about how I make it. In 1988-89, the Government decided the detail of the curriculum. However, there has been a growing realisation that the imposition of a curriculum might not be sensible, and the Department, therefore, engaged in a long period of consultation on the understanding that, if you want real change, the principals, teachers and boards of governors will deliver it. There was a serious and long period of consultation on the curriculum proposals.

*1.00 pm*

2496. A very significant shift is under way. Mr Beggs and I debated the importance of vocational education in the days of the Committee for Employment and Learning. This is really a response to that long debate about the place of vocational education. The new revised curriculum means that vocational education will have a significant place in all schools for all children over the age of 14. Imposing those changes quickly is attractive on the one hand, but, on the other, it will introduce subject areas into schools with which some of the teaching staff are not familiar. Those schools may need different teachers from those that they have currently; they will need materials, courses and programmes. There are many practical considerations about the ongoing significant shift from where we are now to where we intend to go.

2497. Those are not justifications for slowness, but explanations of why, perhaps, matters are different this time.

2498. **Dr McDonnell:** Thank you very much for your presentation, which was short, succinct and to the point. I keep coming back to a point that has been bounced around by several of my

colleagues. Sean Neeson mentioned the 50,000 empty school places. How, in practice, do we sort out the tail end of both primary and secondary education? We can sort that out in theory in this or in many other rooms.

2499. I believe that we have all failed if 5%, never mind 20%, of our children leave school unable to function properly. I cannot put it any clearer than that. Their reading, writing and counting abilities are limited, and they are almost unemployable or only semi-employable. If we sort that situation out, it will lift the whole system and the top end will, by and large, take care of itself.

2500. This question comes down to two things. First, the Department and its agents create leadership and management in the system. Leadership and management are very scarce in some places. I have seen some heartsick schools, which I do not wish to name, be turned around suddenly by the injection of a bit of leadership. The Council for Catholic Maintained Schools (CCMS), which has been quite ruthless in some of things that it has done to help struggling schools, has impressed me.

2501. Where are we with that rationalisation? You mentioned 20 schools that are poor performers. I presume that those are secondary schools. Surely to God we can find a mechanism to rationalise those schools. I feel some personal guilt that while I am involved in politics and public administration, there are children who are not getting the education that they deserve. I believe that that situation pulls our whole economy down. If we solve that problem, we will reverse the trend.

2502. The bright kids are great, and they will succeed one way or another, even if they need a bit of help here and there. Dare I say it, how do we help the poor child from the Shankill or the lower Falls? Michelle touched on that matter earlier. How do we support children from unstable family backgrounds or those single parents who do not get enough domestic support?

2503. **Mr Haire:** That is an absolutely central issue for us. The boards and CCMS have been asked to support plans for rationalisation, to

produce those proposals and to work out how to remove some of those spare places.

2504. We have received responses from some boards, and we have asked the boards to continue that work. The Sir George Bain review is also ongoing. The aim of that review is to look at the process and the wider, long-term structures to help support that. That work is key to this issue. Some boards have been worried that some of that work has come out in the press.

2505. Dr McDonnell is right to raise the question of how to connect schools to the community. I have spoken to Ms Gildernew about early years provision, the connectedness of extended schools and trying to make those connections between schools and communities in all areas of need, but particularly inner cities. Communities and schools must tackle the issue together. School leadership is essential.

2506. We have a very strong investment in the professional qualification for headship to develop leadership in schools. Five hundred school leaders have qualified already; another 500 are in the process. It is often not only the head, but the senior teaching team that can change a school. There are schools in very tough environments where one senior management team is getting excellent results, while others are not. Leadership is a key differentiator, and we must help schools choose, support and develop it. We have not focused enough on that to date, and it is central to school improvement. We must be willing to make those decisions.

2507. **Dr Davison:** That is one of the biggest issues that we face. Mr Haire has tasked me with reconsidering school improvement policy. We must look at it quite radically and consider earlier interventions in cases where, through inspection or data monitoring, we see that standards are falling. We need to give serious thought to the nature of those interventions. Currently, interventions tend to be broadly supportive; we do not adopt an approach involving sanctions. We must think hard about a balance of interventions for school improvement.

2508. Certain structural and cultural elements in Northern Ireland make headship difficult. It is difficult to move principals around schools. The

CCMS has had a degree of success in doing that, but that ease of movement has not been matched in the controlled sector. All the research suggests that leadership is the key factor in school improvement.

2509. The closure of schools is another element. We all know that if the Department agrees a development proposal to close a school, there is a great deal of opposition, even if the standards are not appropriate. Those are significant factors in the crucial question of how we raise standards in schools that are currently poorly performing.

2510. **Mr McElduff:** The skills strategy of the Department of Education and Science is credited with making a major contribution to the Celtic Tiger economy. Are there any particularly strong elements — or perhaps an underpinning philosophy — to that strategy that might guide us in the North to develop a similar, suitable strategy?

2511. **Mr Haire:** Changes since the 1950s and a broadening of Irish education have been key to that contribution. That agenda has been seen across Europe, with broadening the educational process common to all developed economies. The curricular and structural changes that we have described are very much in line with broadening the process. There are very important areas in which we can learn from that agenda. It is about the basics of a broader curriculum and skills; maintaining quality of educational input and content; keeping choices open and varied; and having a range of options for learning.

2512. For example, a key element is the introduction of work experience for 14-year-olds. That engages young people who are not attracted by the classic academic education, but who learn by seeing and doing. We are very conscious of the need to be flexible as regards styles of learning. We work with further education colleges and training organisations in conjunction with the schools; hence the vocational enhancement programme. From talking to young people, we see early signs that it is a success. They find it easier to study subjects such as mathematics when they have seen their function in the workplace.

2513. **Dr Davison:** When I talk to colleagues in the Department of Education and Science or to

professionals anywhere in the education service in the Republic, I find that they understand that there is an economic purpose to education. I am not sure that that is deeply embedded in the way we look at education in our part of the world. There is still a view — which is not wrong — that education is good for you and that a civilised person must be educated. I am not sure that we adopt the idea that there is an economic purpose to education to the same extent as in that strategy. The curricular changes in particular are designed to open up that breadth of purpose.

2514. **Mr McElduff:** Your presentation dealt very well with that issue.

2515. **Mr Dallat:** In education, millions, if not billions, of pounds are tied up in state-of-the-art science laboratories, music suites and assembly halls. Direct rule Ministers talk about the empty spaces. Surely there is an underuse of that resource that could be directed, not just to the 250,000 people who have been failed by the system, but to local people who constantly need to upgrade their skills to meet the new challenges of industry. Why was the community-school concept, which was started years ago in Monkstown, Ballymena and other places, dropped? Has anyone taken an overview of the huge resources we have and the very limited way in which we apply them? The rising costs of further education are going to leave people in rural areas even more isolated than they are at present. Would it not be more intelligent to talk less about the empty spaces and more about what use could be made of those spaces?

2516. **Mr Haire:** First of all, the Bain review will look not only at school provision but at further education (FE) provision. You are right: they are connected. The FE system uses schools quite extensively in some of its work, and we encourage that.

2517. I mentioned the “extended school” concept. Because of their work patterns, parents often want children looked after, but there are other benefits such as homework clubs and other resources that help young people.

2518. The Bain review will work to ensure that the best use is made of facilities. That includes sports facilities; AstroTurf pitches are very

expensive to run. We have to plan how councils and schools can work together on this. We have also talked to the Department of Culture, Arts and Leisure about it. The advantage for us is that the “extended school” concept answers the need to make sure that schools are viewed as part of the community.

2519. I cannot answer your question about the community schools; I do not know enough about the history to say why that was not developed. However, we are trying to examine these issues. The schools are expensive public assets, and we need to use them well.

*1.15 pm*

2520. **Dr Davison:** I have a couple of points to add. The collaboration that will develop through work on the curriculum provides an opportunity to make more effective use of the existing schools estate. That will involve both schools and further education colleges, and that is a hopeful sign. We also received some funding as a result of the ‘Renewing Communities’ package to test the notion of the full-service school, which is a school that will deliver childcare and health services as well as education. We must make an effort to work with colleagues in other Departments to see whether we can shape that.

2521. I was away from schools for a long time, but since my return I have visited a fair number. Although the concept of the community school may have disappeared, many schools that I have visited are aware of the fact that they should use their facilities for the benefits of the wider community. I guess that some are much better than others at doing that, but I see signs from my previous work in schools that they are alive to the possibility.

2522. **The Chairman (Mr Molloy):** We will have to bring this evidence session to a close. You certainly provided the subgroup with much information. Thank you very much for attending, for your presentation and for taking questions. The subgroup will take a brief break before hearing from the next delegation.

2523. **Mr Haire:** Thank you very much.

*Adjourned at 1.16 pm.*

*On resuming —*

*1.29 pm*

2524. **The Chairman (Mr Molloy):** We begin again. I thank the witnesses from the Department for Employment and Learning (DEL) for coming at such short notice. Perhaps you would make a short presentation, and members could then ask questions. We would like to finish within the half-hour.

2525. **Dr Aileen McGinley (Department for Employment and Learning):** Thank you, Mr Chairman. I thank you for hearing us over your lunch break; we were worried that we would come between you and your lunch.

2526. The Department welcomes the subgroup's invitation. With me is our deputy secretary, Catherine Bell; she is our expert on the skills agenda, further education and higher education, among other things. Chris McConkey is the head of our central management unit; he will keep track of any information that you would like us to provide. I will hand out a one-page summary of the Department's corporate plan and a one-page summary of the skills strategy.

*1.30 pm*

2527. All the documents referred to in the summaries are available if the subgroup wants them, but we did not want to overload members. Also, we have copies of the addresses and web contacts. The key point that we wish to emphasise is that DEL — and this is down to my predecessors, one of whom is Will Haire — has looked long and hard at the importance of skills in the economy.

2528. The Department works in two ways: first, to promote learning and skills and to prepare people for work; secondly, to help people into the workplace by addressing barriers to employment. Therefore, the Department must deal with both ends of the spectrum, trying to promote a well-educated and skilled workforce, while helping those people who find it difficult to get into that workforce to do so.

2529. Members should have a copy of our presentation. We will use it as the means to run through the issues.



2530. The Success Through Skills strategy, which was launched in February, should be of particular interest to the subgroup. The original inquiry that was conducted by the Committee for Employment and Learning in September 2001 led to the review of further education — FE Means Business — which will be known to many of you. A lot of work in this area emanated from the previous Assembly, and we are delighted to say that, four years on, we have made considerable inroads. The Success Through Skills strategy is a framework on which hangs the work of the Department and the interfaces between DEL and other Departments. I will come back to that later.

2531. There are four key themes. The first concerns understanding the demand for skills. We need to be sensitive to what employers and the business sector need so that we can provide the skilled labour workforce that is required. The second theme is about improving the skills levels in the workforce. We do that in a number of ways, such as looking at essential skills, including literacy and numeracy — which the Committee touched on during the evidence session with the Department of Education officials — careers, management and leadership and investors in people. The third theme addresses improving the quality and relevance of what DEL does. It is not enough to provide training: it must be relevant and of high quality. Finally, the fourth theme targets barriers to employment — what we need to do to up-skill people and bring them back into employment through programmes such as Welfare to Work.

2532. There are major links between DEL's work and the 'Economic Vision for Northern Ireland', which the Economic Development Forum produced last year. The work of DEL is at the heart of that vision. There are four strands to the economic vision: enterprise; skills and employability; innovation; and infrastructure. The work of DEL touches on all of them — probably not so much with physical infrastructure — so DEL is key to delivering the economic vision.

2533. I turn now to the questions posed by the subgroup in its terms of reference. I will not go

over the major impediments to the development of the economy at length because I am sure that they have been reiterated in the evidence that has already been given. Northern Ireland has achieved a lot. It has the lowest level of unemployment on record, and record levels of economic growth. However, productivity, competitiveness and levels of innovation remain very low and poor.

2534. Northern Ireland is competing in a global market. Not only does that bring focus to the new skills that its workforce needs due to competition from low-cost economies that outsource in countries such as China, it highlights the influx of people to Northern Ireland and the fact that there is a new international labour market. Northern Ireland is losing some of its best people; at the same time, conversely, new people are coming in and providing skills. I am quite sure that, even five years ago, none of us would have thought of the migration issue.

2535. There is also the issue of raising skills levels in the workforce. Again, this points to the issues of literacy and numeracy. One in four adults does not reach basic literacy and numeracy levels; that is not a good record. Due to the holistic nature of the problem, DEL works very closely with colleagues in DE. The point was made that if we could deal with this at the earliest possible stage, it would not be an issue.

2536. I know that the Committee is particularly interested in the high levels of economic inactivity. At 27%, Northern Ireland's rate is the highest in the UK. Ironically, the Republic of Ireland has the same level of economic inactivity. That figure never comes out when people talk about the Celtic tiger. Admittedly, the numbers of students mask that statistic and create positive economic inactivity. We recognise that we need to take that seriously.

2537. There are other issues to consider, such as skills and deficiencies in the workforce and the fact that one third of the workforce is not qualified to level 2, which is the equivalent of five GCSEs at grades A to C. Twenty-two per cent of the workforce has no qualifications, compared to 13% in the rest of the UK. Just over 40% is qualified to level 3, which is the

equivalent of craft level. The facts and figures show us that there are serious issues.

2538. Universities conduct over 50% of all R&D and innovation research. Some would say that that is healthy, but we argue that business needs to come up to the mark and that we need to promote private sector investment. We cannot rely solely on universities.

2539. The skills strategy provides a framework within which those deficiencies can be addressed. Under that umbrella, we have strategies such as FE Means Business, the social skills strategy, the welfare to work reform, the new management and leadership programme — for which consultation has just finished — and the review of careers education, on which we are working with the Department of Education. Mrs Bell will elaborate on those programmes shortly. Therefore we must look genuinely at what we need to do. The current Training For Success strategy, which is the review of our apprenticeship programme, is also significant.

2540. I know that when you look at all the documents, you will be tempted to say that we are good at creating strategies, documents and frameworks. You are quite right about that, but we are now at the point of implementation. We have listened and heard and will continue to do so, but we need to act. One small example of that implementation can be seen in the FE sector, where we are getting to the point at which the colleges are merging and principals and boards of governors are being appointed.

2541. However, we are working on all fronts. Indeed, there are four themes across 16 programmes, and because they are all integral to one another, they are being managed using projects in controlled environments methodology. This is a holistic approach: what happens in one strand influences another. Therefore, it is important that we get them to run in parallel. If one does not work, it has an adverse impact on others.

2542. We have looked at models for fiscal incentives elsewhere in the world, particularly the North Carolina Community College System. We have found that extremely useful, because it creates a ladder of progression through

education. That ladder is embedded in local economic development. In looking at other successful economies, including that of the Republic of Ireland, we found that a skilled workforce increasingly attracts foreign direct investment. Often, the skilled workforce is the tipping point that brings in the investment. It is more attractive than financial incentives, although I am not saying that those are not attractive. We have worked very closely and successfully with Invest Northern Ireland in the past few months on some of the recent investments in financial services and the information and communication technology sector. Companies are interested in a skilled workforce and a good, responsive education skills system. We would argue for fiscal incentives, but in fact, the turning point is investment in things such as skills and workforce development.

2543. We can also consider the example of the tax credits for R&D, the business take-up for which is very low. The bureaucracy that is sometimes associated with things such as fiscal incentives and tax credits runs counter to that as an attraction.

2544. If the Department could make it easier for companies and businesses by providing them with support that is “free of charge” or heavily subsidised, that would remove an entire layer of bureaucracy. It is worth making the point that, although fiscal incentives are extremely important, general support is sometimes of more value to businesses, with as little bureaucracy as possible.

2545. Catherine will pick up on the subgroup’s third term of reference, which focuses on how economic regeneration can be delivered. I will then make a few concluding remarks.

**2546. Mrs Catherine Bell (Department for Learning and Employment):** To allow discussion, I will be as brief as possible. As Aideen said, the Department developed a number of strategies in 2001 that are being implemented now. We know that skills underpin economic success. We have defined skills into three types: first, the essential skills of literacy and numeracy, and, increasingly, ICT; secondly, the employability skills of flexibility, problem-solving and team-working that businesses seek;

and, thirdly, specific occupational skills. The Department's work centres round all three types.

2547. If Northern Ireland is to compete successfully, we must raise the skills of the people already in the workforce. Three factors are involved in raising skills. First, — and the figures are horrific — only one person in three has reached the Department for Education and Skills (DfES) level 2, which is the equivalent of five GCSEs. Secondly, we must increase the knowledge base of those people entering employment. Thirdly, it is equally important to reach the people furthest from the labour market — those who are unable to even access it. Also, we want to promote innovation through research.

2548. When the Department was developing the skills strategy, employers told us that they wanted us to be responsive to their demands. Government have made significant financial investments in the further education, higher education and training systems. Our infrastructure is good, but poor performance and a skills deficit in our workforce remains.

2549. Consequently, we have been refocusing further education under the FE Means Business implementation plan to specifically support economic and workforce development. The overarching strategy sets a much clearer set of goals, with an action plan specifically designed to meet employers' needs. The budget for the implementation plan is very much focused on workforce and economic development.

2550. The first strand of the implementation plan deals with the creation of demand and establishing what employers want, which is very difficult. A Northern Ireland Skills Expert Group has been established, with international membership, including representation from Forfás, which supports the skills expert group in the South, and representation from the USA. The group also includes a director of research from the Sector Skills Development Agency who represents the 25 sector skills councils, representatives from the Confederation of British Industry, the Northern Ireland Institute of Directors and so on.

2551. The group helps to identify not only the needs at a regional Northern Ireland level, but

opportunities down the line. We are setting up six workforce development forums, which will be employer-led, with colleges providing the secretariat function, for the six new area-based further education colleges. Their role is to identify local and sub-regional demands, so that the supply and education and training sides can respond much more effectively.

2552. The second issue is to consider the quality and relevance of education. The Department has divided that into three areas. The first is the FE Means Business programme, and the Department is well on its way to establishing six area-based colleges, giving them the prime aim of supporting workforce and economic development.

2553. The second area is to change the curriculum, which involves working very hard with the Department of Education on a vocational enhancement programme, so that young people who do not go on to higher education can leave school or college at 19, not only with a broad education, but with strong professional and technical skills.

2554. We are not going to use the word "vocational", because people think that that route is for the less able and for people who cause problems. In our economy, we need technician training at levels 3 and 4, and employability skills training.

*1.45 pm*

2555. We have charged the colleges to work hard with our universities on product innovation, prototyping and business creation. By September 2007, we will have created six area-based colleges and be well on the way to implementing the FE Means Business programme.

2556. Any sophisticated economy has at its heart a strong higher education system. We are looking at the quality and the relevance of our universities' output in foundation, undergraduate and postgraduate degrees, and trying, as much as we can, to ensure that young people leaving university have had employability and entrepreneurial skills embedded into their programmes of study. The work of the Northern Ireland Centre for Entrepreneurship at the University of Ulster and at Queen's University was focused initially

on science and engineering, and is now being spread across all areas.

2557. We have asked the Northern Ireland Higher Education Council to join us in developing a strategy to take account of the economic vision, the regional innovation strategy and our skills strategy. Equally, when it comes to innovation and research, 50% of the money goes into the universities, and we are trying to ensure that what the Department puts in for infrastructure helps universities to ensure that some of the research turns out to be of economic and social benefit, and results in spin-out companies.

2558. The last area is the new professional and technical programme, Training For Success, which is currently out for consultation. It focuses on apprenticeship, with the Department of Education introducing a pre-apprenticeship programme for 14-year-olds. We believe passionately that young people should be offered an alternative route; full-time higher education is not the only way to success. However, they have to be able to earn and learn at the same time. The progression will be from an apprenticeship programme to a foundation degree, and then to an honours degree, if they wish, and professional training.

2559. We need to enhance the skills of the current workforce. In the professional and technical programme that we have put out for consultation, we have suggested, resources permitting, an all-age apprenticeship programme, so that we can re-skill the workforce. However, we are really attracted to some of what we have seen in England under the heading of 'Train To Gain', in which free training at level two is available to the workforce. In areas that are important to the local economy, 19 to 30-year-olds can avail of free level 3 training.

2560. For those who are furthest from the labour market, we have been piloting the Pathways to Work programme for incapacity benefit claimants, which is menu-driven and focused on barriers such as health, abuse, or skills problems, so that we can respond more effectively, rather than having a one-size-fits-all approach.

2561. We would like to see an expansion of the return-to-work credit so that people who earn less than £15,000 a year can have up to £40 a week to ease the worry of coming off benefits.

2562. We want to understand demand, improve quality and relevance, and enhance the skills of the workforce in order to bring in the economically inactive. Those are the strands that the Department is implementing.

2563. **Dr McGinley:** We hope that that shows that DEL has been addressing many of the deficits. As a Department, we bridge education, enterprise and social development. As you have heard, we are working closely with the Department of Education on 14 to 19-year-olds, careers and the Vocational Enhancement Programme (VEP).

2564. DEL is working with DETI and Invest Northern Ireland on foreign direct investment, R&D and on establishing the delivery of employer-led skills needs. Finally, DEL is working with DSD on the Welfare to Work programme.

2565. We are doing some of the joining up necessary to ensure that this is a holistic approach. The ad hoc and fragmentary nature in the past has been the single most important impediment, although that has been through no lack of will. We hope that the cohesion of the skills strategy will drive the engine of economic growth that we all want to see happen.

2566. **Dr McDonnell:** Thank you very much. I welcome the change that has taken place; it is long overdue. You are relatively new to your position, and I congratulate you and those that have been there longer and have been more involved. It is music to my ears, and to those of most of my colleagues round the table. However, I am more interested in product than promise, and I will have to wait a little while to see what the product is.

2567. We talk about creating a skilled workforce, which, as you said, is needed to gain foreign direct investment. We all want a high-wage, high value-added economy, but much of that can happen only through serious, practical R&D that is extracted from the brainpower in



universities and used in combination with companies to create product and wealth.

2568. There is a difficulty here, but there must be some mechanism to get companies to engage in more R&D. In the meantime, we have to stick with the universities. How can we push forward and achieve more R&D?

2569. Secondly, and in parallel with that, is getting proper funding to follow on from the R&D. I am talking about the university spin-off companies, such as QUBIS and UUTech Ltd, which are suffering from gross underfunding and a lack of sympathy. I do not know how much of that is DEL's responsibility, as it seems to be a twilight zone where everybody and nobody is involved. The sense is that we are wonderful, with brilliant people in universities, and that the fruit should fall from the trees without anyone having to grow it, spray it or cultivate it. There is a gap here, and sufficient product is not getting out because of the lack of capitalisation.

2570. How do we get more R&D, and how do we fund and work the university spin-outs, the high intellectual property and the high value-added that flows from R&D?

2571. **Dr McGinley:** You are right. The budget falls between DEL, DETI, Invest Northern Ireland and DHSSPS, which funds a lot of our current research. Recently, we launched the United States-Ireland Research and Development Partnership. It reflects exactly your point about looking outwards and bringing in thinking on medical issues, such as, for example, avian flu, diabetes and cancer. We all work well together, but it makes the task more complex.

2572. DEL tends to fund the infrastructure and the universities, to create the physical and other tangible parts of the information and equipment needed. Programme funding tends to come from Invest Northern Ireland and DHSSPS. The two universities are aware that more could be done. There are lot of patents pending, and we must find a way to turn those into something tangible. Recently, Mrs Bell and I spoke to the two vice-chancellors about making things more focused. I welcome the more defined niches for Queen's University, which is heading down a

strong science/academic route, and the University of Ulster, which is heading down the entrepreneurial science route. Also, the two universities are working together — the Northern Ireland Centre for Entrepreneurship (NICENT) project is a case in point — along with QUBIS and UUTech Ltd, which you mentioned.

2573. The Government are committed to R&D. We recognise that we need also to stimulate business to recognise that and to get it to product stage.

2574. Mrs Bell will tell the Committee about a number of programmes, such as the Higher Education Innovation Fund (HEIF). R&D must have a firm place in the next comprehensive spending review.

2575. **Mrs Bell:** As Dr McGinley said, DEL is responsible for funding the infrastructure. However, DEL is also working with the two universities to examine their contribution to the economy. There is no doubt that universities talk about the generalities of R&D. DEL wants to see R&D leading not only to the creation of spin-off companies, but to investment in our own companies. We want more of our top brains to work in SMEs and to take some of the work to them.

2576. Sometimes one could get depressed about the situation. However, considering what UUTech Ltd and QUBIS have produced, and some of the high value companies that have emerged, part of our problem is that we do not celebrate success enough. Success breeds success. In recent months, the University of Ulster has been particularly successful in selling the intellectual property rights to its work on diabetes to a large American company, and it is reckoned that that will generate about £41 million. Not enough has been heard about that. DEL and the universities have a responsibility to build on success.

2577. DEL recognises that SMEs are sometimes reluctant to work with a university: it is like going to a GP and being referred to a consultant. The Department is encouraging the colleges and universities to work in partnership, so that product development and innovation will be done in the colleges and the universities will do

the blue-skies research. DEL has created a fund to encourage collaboration between higher and further education, so that the skills from the universities can be transferred to the further education colleges.

2578. The Department agrees that there must be investment, because we are losing the low-value work. Everyone must put their heads together to tackle that.

2579. **Dr McGinley:** Two examples of such investment are that £94 million has gone into the Support Programme for University Research (SPUR) project, which will run from 2001 to 2008, and over £50 million will go into UK-wide Scientific Research Infrastructure Funding (SRIF) from 2002 to 2008. The money is being invested, but the trick is to ensure knowledge transfer in the third stream.

2580. **Mr McNarry:** In the conclusion to your submission, you seem to be saying, understandably, that although you want to do much more, the Department might not have the money. My reading is that that is a cop out. Everyone could make the point that there is not enough money. I want to hear your reason for including that paragraph.

2581. **Dr McGinley:** Skills are fundamentally important to the delivery of the economic vision, and that has an impact on most Departments. Money allocated to DEL for programmes such as Welfare to Work is ring-fenced, and we cannot interfere, because it is Treasury-oriented. DEL spends almost 85% of its budget on further and higher education and on student support, so there is not much leeway.

2582. DEL would like to do much more and has recognised that, internally, it must do more to prioritise in preparation for the comprehensive spending review, and that process has begun. However, we will not be able to do some things. We have dropped programmes that, all things being equal, would have continued to run. For example, Enterprise Ulster and its associated programmes, which were good in their time, have been wound down. DEL had to weigh up the priorities as they related to that type of programme.

2583. **Mr McNarry:** I would love to get into a discussion, but I am here to ask questions. I am concerned about your reasons for going to the trouble of including this in your presentation.

2584. What percentage of people who are fit for work are stuck in low-income jobs or part-time work, either not able or not interested — perhaps the most important issue is the latter category — in moving up the promotion ladder? What difficulties do they have?

2585. Does the welfare state have a major or minor impact on attracting people to improve their learning and skills?

*2.00 pm*

2586. **Dr McGinley:** We do not have those figures with us, but we can certainly provide the subgroup with them.

2587. **Mrs Bell:** The fact that people have either low skills or no skills and qualifications — as a proxy, we equate skills with qualifications — is a strong indicator of the problem. We have worked hard to tackle the issue of essential skills. By March 2007, we are charged with putting 18,500 people through the essential skills qualification, which means improving their literacy and numeracy skills. Recent research shows the positive benefit that that has had on esteem, health, and so forth. We will then move those people on to level 2 qualifications. Once someone gains that level of confidence, in many instances, they are willing to invest in their own skills development. It is a question of engagement, which is why it needs to be done through employers and the workplace.

2588. Many people have a fear of entering an educational establishment, whether a school or a further education college, so we are trying to work more effectively with community groups. The FE Means Business programme allows colleges to work with quality community groups. Initially, the community groups provide support, mentoring and encouragement to help people to overcome barriers about benefits, childcare, and so forth. Eventually, they can progress to college.

2589. **Mr McNarry:** Problems with underachievement have been identified. Are

schools picking up on the situation that you described, where school leavers, rather than employers are aware of what is on offer? Those people are not going to find employment.

2590. **Mrs Bell:** Absolutely. There is a new professional and technical programme. I referred to the apprenticeship programme, but another strand works with young disenfranchised people who either feel that they do not have the academic ability or who perceive other barriers to employment. There is a similar programme for adults. Work so far has been singularly successful; it specifically targets their needs, whether self-esteem, literacy or numeracy, or abuse problems. The programme is also hard-edged in that we will not allow people to be recycled in that environment. We want them to take whatever time is necessary to get onto the learning ladder. However, once they are on the learning ladder, we want them to be employed and studying part-time so that they are earning and learning. We want to see more lifelong learning, where people invest in their own skills.

2591. You asked also whether welfare and benefits act as a disincentive. If someone has children, he or she needs to ensure that there is a certain income; people are afraid to lose those benefits. We must ensure that benefits, or any other moneys, are protected, so that people can gain the skills to enable them to work. We want everyone to start on the appropriate step on the skills ladder and progress upwards. It would have been lovely to start the skills strategy at level 3, but we could not do that.

2592. **Mr McNarry:** Is there still a perception that benefits compete with the search for employment?

2593. **Dr McGinley:** Welfare reforms, such as the Welfare to Work programme, are addressing that important issue. We are driven partly by national policy, but it is intended that, in 2008, a new form of income support, which tests the very nature of that question, will be established. We are proceeding also with the Pathways to Work programme in 10 areas of Northern Ireland. We have already rolled it out in six areas. That programme takes an individual look at people's needs — whether they are lone

parents, or over 50 or are on incapacity benefit. It will address people's needs genuinely, perhaps sending them to counselling or placing them into skills programmes.

2594. Last week, I visited a Jobs and Benefits office where the disability adviser and the Pathways to Work adviser were absolutely delighted because one of their disability applicants — a man who had been a scaffolder all his life, but had smashed his knees and was, therefore, incapacitated — had got on to a sign language training programme and was going to become an interpreter. It was great to see the joy and pride that the staff took in getting someone who really wanted to work but needed help with the “how” and the “what”. I should mention also that the review of careers guidance will help to provide a signpost.

2595. **The Chairman (Mr Molloy):** We are running out of time.

2596. **Mr Weir:** I shall be brief. Thank you for your presentation. I join with Dr McDonnell in thanking you for the various programmes that you are operating, despite the constraints under which you are operating.

2597. I wish to pick up on two points. I was interested in the remarks that you made about DEL being the bridge to other Departments. One of my concerns is that, because of the departmental structure, economic development touches on — or is central to — a number of Departments. First, I wonder whether you could expand on any structures that exist for liaison and consultation with Departments or agencies to ensure that, in whatever skills programmes you are running, there are appropriate levels of input from those who are affected directly.

2598. Secondly, you provided information on the idea of helping to focus universities and graduates on a more business-oriented scenario. The other side of that coin may be less of a problem than it was 10 years ago. It was identified in the Dearing Report and is the extent to which there is still a section of school-leavers at the higher end who cannot find places in universities in Northern Ireland. In particular, there are concerns that, although it may not be as big a problem as it was, the caps that are placed on

university places in Northern Ireland mean that we continue to export a reasonable percentage of our best talent. In some, but clearly not the majority of cases, that is because people cannot find a place here, rather than because many students want to leave Northern Ireland. What actions could be taken to counter that problem?

2599. **Dr McGinley:** I will take your first question, and Catherine will take your second. Recently, we have been working increasingly closely with others, including the Economic Development Forum, on which we are represented with the other Departments. We have quarterly meetings with DE and DETI, and regular meetings with DSD, right down to officer level. DEL is represented on all the major strategy groups, such as the regional innovation strategy, and so forth. We work very closely together, and since I have been with the Department, I have seen the blurring of the lines. I have been with the Department for only four months, but since I arrived, a real ethos is emerging about the importance of interdependency. I am not saying that that was because of my arrival, but I assure members that it is getting much better.

2600. **Mrs Bell:** We are working with others on projects concerning 14 to 19-year-olds, particularly with the Department of Education. Robson Davison came from DEL, so there is great co-operation in the programme that we are running together. Similarly, we work with Invest Northern Ireland. The fact that employers are now saying that skills are at the heart of the matter means that INI and DETI are bringing us to the table.

2601. I turn to the second part of your question on higher education. Yes, Northern Ireland does lose some young people, but not all the brightest and the best at 18 years of age. However, we undertook research and found that the vast majority of the really able who go away, go to their university of first choice. Our trick must be to attract them back. Those who are reluctant to go away are at the lower level of educational attainment. We would like them to stay in Northern Ireland and work through the further education sector towards foundation degrees.

2602. **Mr Weir:** Despite the Dearing Report, one would suspect that the figures are even higher. No one is questioning the fact that the vast majority of 18-year-olds who leave want to go. I do not think that the situation is very different from that in other regions, because many people want to go to university away from their home towns. Although I appreciate your explanation, I still do not see a strategy to reduce the number of people who leave Northern Ireland because they cannot find a university place.

2603. **Dr McGinley:** Opening up the further education sector through the new area-based colleges has helped that situation substantially, as have foundation degrees.

*The subgroup became inquorate at 2.11 pm and adjourned at 2.17 pm.*



## Thursday 3 August 2006

### Members:

The Chairman, Mr Jim Wells  
Dr Esmond Birnie  
Mr Wilson Clyde  
Mr John Dallat  
Mr David Ford  
Ms Michelle Gildernew  
Dr Alasdair McDonnell  
Mr Barry McElduff  
Mr David McNarry  
Mr Sean Neeson  
Mr Peter Weir

### (EMERGING ISSUES SESSION)

*The subgroup met at 3.34 pm.*

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

1821. **The Chairman (Mr Wells):** I call the meeting to order. I remind members that seven is the number required in order for there to be a quorum, so we have a quorum and no more. We are expecting one more member to attend, so I ask members to bear in mind that we need to keep seven around the table at all times.

1822. **Dr McDonnell:** Mr Chairman, I will be under considerable pressure to leave once it creeps towards 4.25 pm.

1823. **The Chairman (Mr Wells):** I hope that Mr McElduff will be here by then so that there will still be seven members.

1824. Once again, I remind members to keep their mobile phones switched off. Apparently, some of this morning's proceedings could not be recorded because somebody's mobile phone was on. It happened while the subgroup was inquorate, so it may not be crucial. Every now and then I hear the slightest hint of a text message — perhaps the results of the Galway races are being broadcast to members' mobile phones.

1825. **Mr Ford:** That will be the DUP members.

1826. **The Chairman (Mr Wells):** I have received apologies from Margaret Ritchie. John Dallat is attending in her place.

1827. **Mr Ford:** Sean Neeson also sends his apologies.

1828. **The Chairman (Mr Wells):** I am very glad to see Mr Dallat here. Mr Mitchel McLaughlin is not here, but Mr McElduff is in his place. I understand that Ian Paisley Jnr is not here. Wilson, are you substituting for him?

1829. **Mr Clyde:** I am junior. *[Laughter.]*

1830. **Dr McDonnell:** No better man.

1831. **The Chairman (Mr Wells):** You have improved enormously, junior. *[Laughter.]*

1832. **The Chairman (Mr Wells):** Who are the Ulster Unionist representatives?

1833. **Dr Birnie:** My understanding was that David McNarry would be here.

1834. **The Committee Clerk:** He put a question mark over his attendance when I asked him earlier. However, we knew that if Dr Birnie were present that the subgroup would be quorate.

1835. **The Chairman (Mr Wells):** It looks as if this is it, folks. We must make absolutely certain that we keep our quorum.

1836. **The Committee Clerk:** I had a discussion with the Editor of Debates and the Deputy Clerk about the meeting being inquorate for six minutes earlier today. The decision was that we cannot have an Official Record once the subgroup becomes inquorate. An unedited transcript of the six minutes — minus the portion lost due to the interference of the mobile phone, whichever it was — will be produced so that we will have a verbatim record of what was said.

1837. **Mr Weir:** Is the quorum rule completely strict? If we start quorate but become inquorate in the course of the meeting, we cannot continue —

1838. **The Committee Clerk:** It is absolutely strict. Statutory Committees have become inquorate in the past. I had been advised informally that, if the subgroup became inquorate for only a couple of minutes, we could ignore it, which was what we did this morning. Clearly, that was not the case.

1839. **Dr McDonnell:** Some of us argued earlier that six members might be a better quorum, but some of your colleagues felt that they wanted seven.

1840. **Mr Weir:** It is a wee bit academic, since we have presumably been given the law engraved on tablets of stone from on high.

1841. **The Chairman (Mr Wells):** The draft minutes of today's sessions will be tabled at next Tuesday's meeting. There are no minutes as such. The draft transcripts of Tuesday's session, including the evidence of John Simpson and Enterprise Northern Ireland, should have been issued to members. Everyone has seen them. Any corrections should be returned by the close of play on 7 August. Please look at the transcripts to make sure that they are OK.

1842. I want to get a couple of housekeeping issues out of the way. First, and I do not know whether this was reported this morning, I wrote to myself, and the Committee on the Preparation for Government agreed yesterday to the subgroup's request to extend the deadline for our report by one week, to 25 August. Of course, that is predicated on the Secretary of State's decision on moving the dates for plenary business to 11 and 12 September. We have not yet heard from the Secretary of State on that. However, the Preparation for Government Committee was more than happy to agree.

1843. **The Committee Clerk:** We discussed that this morning, and it was agreed that there would be two sessions on the draft report and a written evidence session the week before that.

1844. **The Chairman (Mr Wells):** That will be a busy period for us. The Ulster Unionist Party nominated Mr Jim Wilson for chairmanship, so the subgroup will have five Chairmen. I understand that the Alliance Party has nominated Naomi Long and that the SDLP has nominated

Alban Maginness, who, as a former Chairman of the Regional Development Committee, is a very experienced hand. We now have a full complement, which will lessen the burden on Mr Molloy and me and enable us to concentrate on the meetings on the institutional and policing and justice issues. That is good news all round.

1845. **The Committee Clerk:** If the subgroup is content, we propose to put the three new Chairmen first on the rota and come back to Mr Molloy and you when you are available. That means that the two more experienced Chairmen who have been involved in more meetings will take the last few meetings. That seems a sensible approach.

1846. **The Chairman (Mr Wells):** Therefore, Mr Wilson will be the first.

1847. **The Committee Clerk:** Not necessarily. It could be any of the three.

1848. **The Chairperson (Mr Wells):** Is everyone happy with the arrangements? We seem to have a fine mixture of youth, good looks and experience.

1849. **Dr McDonnell:** Is it reasonable to make proposals or suggestions, or do we just go on a roulette-wheel basis?

1850. **The Committee Clerk:** It will be on the basis of what is practical and who is available for each meeting. I will check with the three people and construct a rota that suits them.

1851. **The Chairman (Mr Wells):** Mrs Long has the youth, and the good looks I might add.

1852. **Mr Ford:** And a fair bit of experience, Mr Chairman.

1853. **The Chairman (Mr Wells):** We will now move on to the substantive part of the meeting, which concerns the emerging issues. I have found the evidence sessions that I have chaired and witnessed to be extremely helpful. The standard of questions and material presented to the subgroup have been extremely high. Perhaps I am biased, but I sat on the Enterprise, Trade and Investment Committee with Dr McDonnell for many years and we had much more difficult sessions than we have experienced here

recently, and some very interesting and thought-provoking points have emerged.

1854. This morning, members were given a copy of a paper on emerging issues. Did everyone receive it and have a chance to read it? Of course, the paper does not include issues arising from this morning's session. Our Clerks are good, but even they are not that quick off the mark. The subgroup needs to decide whether the paper captures the essence of the issues that have emerged, whether anything needs to be added, or if there is anything in the paper that members disagree with. The subgroup will then need to identify and agree the salient points that have come out clearly in the evidence and in the discussions.

1855. **The Committee Clerk:** Mr Chairman, a couple of papers need to be presented now. I have prepared a summary of the initial research paper, which was presented by Dr Gilleece. It also lists a lot of the main points of the evidence sessions. I have also asked the Clerk of Business, who has been working for the subgroup for the past few days, to prepare a paper which provides a summary but also goes into some of the potential solutions. A third paper has just been presented to the subgroup by Dr Gilleece, and he will talk to the subgroup about it shortly.

1856. The papers are really aides-memoires — thoughts that we have pulled together. The key issue for staff is to put all of the evidence into a report that the subgroup can sign up to. We must be absolutely clear about the subgroup's direction, and this session will be a hour's worth of thinking about that.

1857. **The Chairman (Mr Wells):** Is everybody content with that structure? We have until 4.30 pm to come up with the bones.

1858. **Mr Weir:** I would like to clarify one issue. Are we simply identifying the issues emerging from the evidence at this stage? I assume we are not agreeing any wording on particular issues at this point.

1859. **The Chairman (Mr Wells):** That is correct. Could we bring in Dr Gilleece now?

1860. **The Committee Clerk:** That would be useful.

1861. **Dr Gilleece:** Thank you. As regards innovation, several themes come through in the paper, which help demonstrate a lot of the issues that have been raised. The consistent message that we are getting from the presentations is the necessity for change and for transforming accepted working practice.

*3.45 pm*

1862. From an economic perspective there are several strategies that are accepted drivers for innovation, and these should be fully exploited. However, the presentations have also emphasised the importance of innovative practices in the public sector and of changing the way we work and the approaches employed to address social and economic challenges. Adopting a new approach is fundamentally the most important reason for the success of the economy in the Republic of Ireland.

1863. Also, from the economic perspective, a factor common to successful regional economies in Europe is the key priority given to innovation, in which R&D is key. Regions such as Emilia-Romagna in Italy; Baden-Württemberg in Germany, and Silicon Valley in California are acknowledged as having highly successful innovation systems. They fully exploit their innovative capability and consequently enjoy the benefits of rapid growth. A more R&D-intensive, innovative and knowledge-driven economy tends to result in better, more sustainable jobs and higher wages.

1864. Innovation does not refer just to economic strategies; it is also concerned with reviewing and changing all aspects of our working practices. The Northern Ireland Business Alliance made that point. Innovation's importance is elevated as a result of the globalisation of competition conditions, which is a point that Liam Nellis of InterTradeIreland touched on.

1865. The 1995 European Green Paper on innovation stresses that innovation is not just an economic mechanism or a technical process; it is above all a social phenomenon. With regard to economic development, that often means the commercial exploitation of R&D. Innovation also refers to the adoption of methods of working that, while not necessarily new, are

radical changes to a particular organisation or sector. That applies equally to the private sector and the public sector.

1866. The Northern Ireland Business Alliance (NIBA) made the point that radical policy change is required if we are to change the trajectory of the local economy. They believe that this requires a social partnership between the public and private sectors, business and elected representatives, trade unions and the voluntary sector. NIBA highlighted changes in approach in several areas that are required if we are to move from being a public-sector-led to a private sector-led economy.

1867. One of the key points in NIBA's presentation was that public sector behaviour can have a major influence on how the private sector develops. It said:

*"If we are serious about making changes, we need a complete review of how the public sector in Northern Ireland is run ... The Civil Service is so good at maintaining stability it cannot be agile; it cannot transform. We must break it up with a hammer, so that those who want to get on and do things are not prevented ... It will stop your best ideas coming forward, because it is designed to create stability and even out change." — [Official Report, Subgroup on the Economic Challenges facing Northern Ireland, 25 July 2006].*

1868. Change in the Civil Service and the public sector goes beyond structural and organisational change. At crucial points in the development of the Irish economy, civil servants have thought creatively and have taken innovative approaches, and that was instrumental. Dr T K Whitaker, secretary to the Department of Finance, and originally from Rostrevor, prepared a report called 'Economic Development' in 1958 that was a watershed in the transformation of the economy in the Republic of Ireland from being a mainly agricultural society into a modern, industrial-based economy.

1869. By contrast, it has been argued that the civil servants in Northern Ireland appear to be motivated by a fear of appearing before the Public Accounts Committee. The recent controversy about token entertainment that

public servants received only serves to make them less likely to act autonomously and, more importantly, to think autonomously.

1870. In the early 1960s the Organization for Economic Co-operation and Development (OECD) held a conference in Washington on economic growth and investment in education. They asked for two countries to volunteer to do a national survey of their entire educational system. The Irish and the Austrian delegates were the only countries that were prepared to risk exposing their countries' shortcomings to the world's gaze. The existence of the team and the OECD report that was produced are regarded as landmarks. In 2003 the Department of Education and Science in the Republic of Ireland invited the EU Directorate for Education to undertake a similar review. That indicates a willingness to invite scrutiny and receive criticism in order to achieve an overriding objective of performance.

1871. Moving on to policy development and delivery, John Simpson questioned the delivery of strategies for innovation, R&D and training. From recently presented facts, it would appear that strategies on innovation and entrepreneurship, for example, did not have the impact that they should. That might indicate a need to change how policy is delivered, but also perhaps how it is developed. According to the economist Mike Smyth, an ever-widening experiential gulf exists between policy-makers and private economic agents. How can that lead to good policy-making?

1872. Perhaps it may be appropriate to harness the potential of the public sector to stimulate entrepreneurship. For public-sector employees, entrepreneurship training and basic business skills may help to improve policy development and encourage entrepreneurship.

1873. Regarding the education sector, there are three principal features in the education system of the Republic of Ireland that have led to its success: first, the breadth of the secondary-school curriculum; secondly, the high standards of university degrees; and thirdly, the availability of post-school training.



1874. Government has stated that there is a need to embed business training in the curriculum at secondary level in Northern Ireland. The Northern Ireland Council for Voluntary Action would like to see greater emphasis on life skills, personal development and citizenship. However, the overall key issue may concern the breadth of our educational system and the efficacy of any new initiatives that we introduce. The rapid progress in educational development in the Republic of Ireland has been achieved without lowering educational standards, as appears to be the case in Great Britain, at secondary school level and in universities.

1875. I now turn to third-level interaction with industry. John Simpson said:

*“FE colleges still, to a large extent, determine for themselves what they offer. That cannot be right.” — [Official Report, Subgroup on the Economic Challenges facing Northern Ireland, 1 August 2006].*

1876. Dr Michael Maguire of NIBA said that:

*“We need to be able to push those ideas through a responsive education system that considers its jobs to be one way of helping to develop the economy in Northern Ireland.” — [Official Report, Subgroup on the Economic Challenges facing Northern Ireland, 25 July 2006].*

1877. As far back as 1978, the Manpower Consultative Committee was set up in the Republic of Ireland to allow for dialogue between the Industrial Development Authority and the education system. The education system in the Republic of Ireland is now tightly integrated with the country's foreign direct investment (FDI)-oriented development strategy. The resulting programme from the Manpower Consultative Committee produced a sharp increase in the output of graduates in electronic and mechanical engineering and in computer science. Output of engineering graduates increased by 40% between 1978 and 1983, while the number of computer science graduates increased tenfold in the same period.

1878. The view of the Industrial Development Agency and Forfás, the policy advisory and co-

ordination board for industrial development, in the crucial areas of the labour and skills markets, have been more likely to lead to new course initiatives, or pump-priming by the Department of Education and Science or the Higher Education Authority, than any other source.

1879. In conclusion, individual recommendations taken forward in isolation will not meet the challenges facing the economy. The economist Mike Smyth has said that if the economy of Northern Ireland is to return to a more normal growth trajectory, a unique or abnormal set of policies will be required. This will require creative thinking and the willingness to consider radically new approaches. Innovation is about ambition and taking risks. It is about foresight and vision.

1880. **The Chairman (Mr Wells):** Thank you, Dr Gilleece. Hopefully, your presentation has helped to set the scene. We will now look at the list that the Clerk has prepared. Again, I emphasise Peter Weir's point that we are not asking the subgroup to put the issues in order of priority or attach any weight to them; we are simply deciding whether the issues are relevant and important. We can return later to the fundamental decisions on how to tackle them. I suspect that that will involve quite a lively debate, but it is best to simply go through them for now. If members have additional points, feel free to catch my eye and I will give you an opportunity to speak.

1881. **Mr McElduff:** One point that may need to be factored in is the desirability of political stability, or whatever term members want to use to describe it. The business sector is telling us that it wants the institutions restored to bolster economic development. That can be translated as a need for political stability, but an overall political context must be considered, which will not breach anybody's party politics. Business people are basically telling us that they would be a lot happier if local Ministers were making decisions about economic development.

1882. **The Chairman (Mr Wells):** That issue is referred to at point 15 of the Clerk's list. However, Mr McElduff has approached it from a slightly different angle; we might want to beef

that up. Again, the fact that it is numbered 15 does not mean that we think that it is the fifteenth most important issue. Some members might place that among the top three issues.

1883. **The Committee Clerk:** The second page of my paper notes themes from the evidence sessions. I have simply listed, from memory and from looking through the Hansard reports, issues that have arisen. I emphasise that the order is immaterial and does not reflect importance. That point has been covered. Perhaps, as the Chairman suggests, the subgroup would like to go through the list, adding to it as it sees fit. I can then compile a reasonably comprehensive list of issues.

1884. **Mr McNarry:** First, I would like to say that Dr Gilleece's presentation was excellent and very helpful. Perhaps my question will sound naive. The Secretary of State has spoken of £16 billion of investment over the next 10 years. It would be helpful if the subgroup could see how that £16 billion has been broken down; that way we could know where the money is going and how it will be used. The subgroup might want to look at the Secretary of State's ideas for using that money and compare it to our thinking for differences of emphasis as we prepare for devolved government.

1885. **The Committee Clerk:** We have added the Department of Finance and Personnel to our list. Officials will be coming here next week and may well have those figures. I hope they do. I will see if I can get them.

1886. **Mr McNarry:** Yes, they may well. This Secretary of State has been burning my ears with this £16 billion.

1887. **The Committee Clerk:** I am just wondering whether it will be them or the Department of Enterprise, Trade and Investment. I will contact both and get that.

1888. **Mr McNarry:** What I am really asking is this: he said there is £16 billion to spend, and I want to see how he intends to spend it.

1889. **The Committee Clerk:** We can get that.

1890. **Dr Birnie:** Having two papers is confusing, but I will start with the one that the Committee

Clerk has drafted. I agree entirely with the point of the first item. Maybe this is getting into more substantive issues, but I am not sure that we should congratulate ourselves too much by saying that we are not much different from Wales and Scotland. We can perhaps have that debate in due course, because they also have relatively large public sectors, and their economies are arguably structurally poor as well.

1891. Item 12 covers much the same area as Dr Gilleece's excellent paper. We should elaborate on item 12 in two ways. As John Simpson pointed out, there seems to be a chronic slowness in implementing policies. Dr Gilleece notes that our Civil Service structure does not seem to be fit for the purpose of putting policy into practice. He also refers to people being scared of appearing in front of the Public Accounts Committee. However, there is inevitably a trade-off: we all want to see absolute probity in the use of public money, and as political representatives and the public's stewards we must ensure that; but on the other hand we encourage public servants to take occasional risks. Invest NI, for example, has to take risks with investing public money to promote higher return in job creation in the long run. We need to highlight that dilemma.

1892. Point 16 in the Clerk of Business's paper refers to the brain drain. We should add to that: it is often assumed that the problem is simply that people are choosing to leave Northern Ireland or are forced to leave due to economic and other conditions. There is another aspect to it: could it be that local businesses and, indeed, perhaps even the public sector, either because it is relatively small, or because of a culture of management, simply do not want to employ certain highly-qualified people here? There may be a problem on the demand side in the labour market here.

1893. **The Committee Clerk:** It is an interesting point to make, Esmond, because the Department for Employment and Learning has prepared a paper on why people are leaving. Is it because there are not enough university places, or because there is not enough work?

1894. **Dr Birnie:** No doubt it is a mix of those, but we need to capture that.

4.00 pm

1895. **Mr Weir:** I want to make a procedural point. We have three papers in front of us. It might be helpful to pick one paper and go through it. Many issues are identified in the papers, and there will be a fair amount of overlap. We should concentrate on one paper and then move on to the next; otherwise, it will be very confusing.

1896. **The Committee Clerk:** I recommend that course of action, not as a preference, but because a simple list would be easier to deal with.

1897. **Mr Weir:** Mr McNarry's point is similar.

1898. **Mr McNarry:** It is similar. It deals with the point raised by Esmond Birnie about item 12 of the Clerk's paper. Would that allow the subgroup, with your guidance, to examine the reduction in the number of Departments referred to by the Secretary of State?

1899. **The Chairman (Mr Wells):** Only if we could establish that that is an impediment to economic progress.

1900. **Mr McNarry:** I agree with the Secretary of State that the Civil Service is an impediment to political progress. However, departmentalising it along economic delivery lines would present another problem. A theme in the presentations was that one bit is doing this and another bit is doing that — Barry McElduff referred to that. The concept of joined-up delivery seems to be all over the place.

1901. **The Chairman (Mr Wells):** We must be careful not to stray into the work of the PFG Committee.

1902. **Mr Weir:** The number of Departments is a separate issue, and I share Mr McNarry's view on that. Problems have been identified, but I suspect that Departments have tried to pretend that they do not exist. There is a lack of joined-up delivery on economic development. The number of Departments is less important than the fact that some the responsibilities seem to lie in various areas across half a dozen Departments, and there appears to be a lack of co-ordination and integration. Some Departments

deny that there are problems and say that there is full liaison.

1903. **The Chairman (Mr Wells):** It was clear from the evidence that there was a dichotomy between the Planning Service's aims and aspirations and those of DETI.

1904. **Mr Weir:** Whatever people might think about individual projects, when DRD or Roads Service make announcements, how are they joined up to show the benefits to the economy? Those announcements may be of benefit to the economy. However, it is important to realise that, prior to reaching those decisions, there does not appear to have been a great deal of consultation with people in the economic sector.

1905. **Dr McDonnell:** I agree with Peter Weir and I apologise to Mr McNarry. It is not the subgroup's business to get involved in the number of Departments. It is about communication and connectivity. We had connectivity problems in the old Department of the Environment, where one corner of it did not know what the other was doing. The number of Departments must be dealt with, but it should not be dragged into the economic argument.

1906. **Mr McNarry:** I do not want to get into the deep political aspect of this matter, but it has been said that there will be a reduction in the number of Departments, and we should at least factor that in and consider how the Departments would work, and how many there might be — be that seven or nine or 11. I did not mean that the subgroup should decide how many there should be.

1907. **Dr McDonnell:** I accept that. However, from my perspective, the problem is a lack of communication and energy within the Departments, and not how many there are.

1908. **Mr McNarry:** There is a lack of management as well.

1909. **Dr McDonnell:** Yes, there is a lack of leadership and management. We could reach the stage where one Department would run everything, and it would resemble a madhouse.

1910. I refer to the paper by Paul Moore. Point one relates to the imbalance between the public

and private sectors. The subgroup must consider and agree on the clear requirement for substantial private-sector growth. The problem is not that the public sector is too large, although some trimming, streamlining, refocusing and reinventing of various Departments is required. As in any business, as circumstances change, something that worked 10 years ago may be redundant today.

1911. The big challenge lies in the fact that, in general, the private sector is minuscule, and we need massive growth in it. The subgroup needs broad agreement on some of the parameters around that challenge. The subgroup must be efficient in its efforts to focus on one, two or three projects or ideas to unlock the economy. There is no point in our coming up with 20 ideas.

1912. **The Chairman (Mr Wells):** Any potential savings and efficiencies could be teased out when the DFP witnesses come before the subgroup.

1913. **Mr Ford:** During my 17-year career, I experienced three reorganisations of health and social services, and I am not convinced of the Trotskyite concept of continuing revolution in institutional structures. David McNarry put his finger on it a few minutes ago when he talked about the ways in which Departments work. That ties into what Peter and Alasdair said about the announcement of a £400 million roads package this week, for example.

1914. Witnesses from DE and DEL mentioned that they have co-operated on various matters. If Departments recognise the need for co-operation, and actually co-operate as opposed to merely saying that they are doing so, that would cover some of the issues of concern. However, the problem arises when other Departments make announcements, such as that about the roads package, with no reference to economic drivers.

1915. **The Chairman (Mr Wells):** As it is 4.05pm, and I am conscious that Alasdair is pushed for time, let us consider the part of the Clerk's paper headed, "Evidence sessions" and go down the list of themes. We may be able to cover some quickly; others will require discussion. Point 1 refers to perceived over-dependence on the public sector.

1916. **Mr Weir:** I want to pick up on Alistair's point, and, again, this is perhaps more about phraseology. The point is that the problem lies in the weakness of the private sector rather than over-dependence on the public sector. To some extent, those are two sides of the same coin. I realise that we are not trying to agree a form of wording, but it is a slightly different point.

1917. **The Chairman (Mr Wells):** Is everyone happy with a change of emphasis to tidy that up?

*Members indicated assent.*

1918. **The Chairman (Mr Wells):** Do members wish to comment further on point 1? It is obvious that it must be included, and there is no argument on that.

1919. **Dr Birnie:** It may be statistically correct that the size of the public sector in Northern Ireland compares to those in Wales and Scotland. However, the fact that productivity in Wales and Scotland, as in Northern Ireland, is falling in relation to the UK average arguably results in a comparison with a poor standard.

1920. **The Chairman (Mr Wells):** Shall we delete that reference to Wales and Scotland?

1921. **Mr Weir:** I was going to suggest that on this issue, the paper prepared by the Clerk of Business referred to an:

*"Unbalanced economy between public and private sectors — a clear requirement for private sector growth."*

1922. That emphasis is closer to what we are aiming at than the wording of point 1 of the paper prepared by the Committee Clerk.

1923. **Dr McDonnell:** There is no harm in keeping the reference to Wales and Scotland. The point is that our public sector can be compared with those in Wales and Scotland. Perhaps the public sectors in Wales and Scotland are not as robust as they should be, but we must try to ground ourselves in some comparative reality, and the real issue is private sector growth.

1924. I am slightly worried that the general view seems to be that the only problem is that the public sector is too large. At least 95% of the public sector is required to sustain the community and services, etc. Allowing the public service to



be put at risk, or putting about the notion that slashing public services would somehow achieve anything, would only serve to erode existing services. The clear challenge is to create jobs in the private sector in high-wage, high-value-added areas.

1925. **The Committee Clerk:** So far, all the witnesses have been consistent about there being no need to cut the public sector. They have all said that there is a need to continue to invest. Public expenditure growth should continue, but the private sector should be strengthened.

1926. **Ms Gildernew:** A strong point has emerged about the public sector's inability to be agile and, if you like, to turn on a 50-pence piece. I am not keen on comparisons with Wales and Scotland, and previous witnesses have told the subgroup that those regions are not good comparators. Peter Gilleece mentioned the unbalanced economy between the public and private sectors. The main point is that we need to grow the private sector rather than slash the public sector. Peter Hain has pushed the point that we need to slash the public sector because of the imbalance, but that imbalance exists because the private sector needs to grow.

1927. **The Chairman (Mr Wells):** There seems to be general consensus on that theme. The next point is the low levels of business start-up, the high-cost business environment and over-regulation.

1928. **Ms Gildernew:** In relation to business start-ups, it depends on which part of the North is being referred to. However, I am more concerned about nurturing those business start-ups through their next phase of development. The important issue is the success rates of business start-ups.

1929. Are high-energy costs and barriers to SMEs included on the list?

1930. **The Committee Clerk:** They are included.

1931. **Ms Gildernew:** Can challenges to the SME sector in areas such as energy, transportation and manufacturing rates be included on the list?

1932. **The Committee Clerk:** This is not a definitive list. The Clerks compiled it to stimulate debate, so it has been a useful exercise.

1933. **Mr McNarry:** The list sends out a negative message, which is not the type of message that we want to send. We need to include some positive elements in our report that send the right signals to the Preparation for Government Committee. I hope that the report will generate a debate in the House. I would not go as far as the Secretary of State does about being world class, and so forth, but it is a goal worth aiming for. The report could be full of doom and gloom. Early on in our discussions, we said that we wanted to hear what witnesses had to say so that we could raise issues with the relevant Ministers. Quite honestly, I have heard nothing positive about innovation or any sound arguments about what needs to be done. Can we scope those issues? If we were to that, some ideas might emerge on how to deal with them?

1934. **Mr Weir:** The positive and negative aspects can be married in. The report will have an introduction, which will highlight the positives. These two lists cover the impediments. The impediments have been identified, and we need to discuss positive solutions. By their very nature, impediments are negative.

1935. **Mr McNarry:** Witnesses have said that the solution is to throw money at the impediments, but my capitalist nature cannot agree with that argument.

1936. It is not the solution in a small country such as ours.

1937. **The Chairman (Mr Wells):** The next stage of the subgroup's work will be a major philosophical debate on whether money should be thrown at problem areas.

1938. **Mr McNarry:** I appreciate that. This is simply a matter of whether we accept that issues have been raised and are important. We are not dealing with solutions.

1939. **Dr Birnie:** I agree with Michelle's point. Item 2 on Alan Patterson's paper is very good as it stands, but we must add that it is not just a matter of getting firms started, it is a matter of getting them to grow. All the evidence suggests

that if 100 firms were started tomorrow, each employing one or two people, a quarter or half of them would collapse within a couple of years, and only one or two would ever grow to a position in which they employed 50 or 100 people. The question is how the policy makers identify firms with the potential for high growth for business incubation.

1940. A supplementary point that I tried to raise during a number of the evidence sessions concerns whether Northern Ireland entrepreneurs are, on average, inclined to growth, or whether they are inclined to grow to a certain size and then stop because they have achieved a reasonable standard of living and have begun to question the need to endure the hassle or to risk losing control.

1941. **Mr McNarry:** Point 14 of Alan's paper might deal with that matter.

1942. **Dr Birnie:** OK. I missed that.

1943. **Dr McDonnell:** This point may be contentious, but it must be raised. Grants have not been mentioned at the sittings at which I have been present. My thinking on them changed as a result of my involvement in the Committee for Enterprise, Trade and Investment, in which you and others were involved, Mr Chairman. My thinking changed because grants are doled out in Northern Ireland on an ad hoc basis. One can be lucky and get a grant, or one can be unlucky and not get one. Sometimes, it is very difficult pinpoint the differentiator.

1944. I believe strongly that we must consider a small firms loan guarantee scheme, such as that operated in the States. I hope to raise that matter with the Department of Finance and Personnel when its representatives appear before us. In the States, instead of handing out grants here and there, the authorities use £5 million or £6 million as a pump-primer key. That money is used as insurance and, in turn, the banks are asked to put £100 million on the table, with that £6 million used as the underwriting factor. The banks then loan money at base rate to businesses under a special business scheme to which everyone has access.

1945. Recipients must pay back that money — that is the only difficulty. However, instead of a

lucky 20% of people getting access to a grant, 100% of people have access to the scheme. It does not matter whether someone is starting a grocery shop or a restaurant. That scheme is particularly important in the States because large numbers of migrant ethnic minorities want to start up in business. Another important point is that that loans scheme has created a culture in which women start two thirds of new businesses. I would be the first to admit that our business culture appears to be male-dominated. The reality is that, by creating a level playing field, one opens everything up.

1946. It may be that some people agree with me and some disagree. However, if we can do one thing only, it should be to discover how much money DETI and others give out in grants for small business start-ups. Take that money and go to the four banks and ask for a banking consortium to set up a loan fund. That scheme would be equally open to someone who is setting up as an agricultural contractor in Newtownards or to a Chinese guy who is setting up a Chinese grocery store in the Markets or at Donegall Pass in the heart of Belfast. Under that system, the banks would provide the assessors, etc, rather than Invest NI and the banks running three or four duplicated systems.

1947. Mr Chairman, it is important that, before we complete our work, we consider that.

*4.15 pm*

1948. **The Chairman (Mr Wells):** It is 4.15 pm, and we are still debating the second discussion point. Let us move to the third.

1949. **Mr McElduff:** I am not sure that we will get through this business today. That is a matter for your judgement, Mr Chairman.

1950. Point 2 of the Clerk's paper concerns factors inhibiting small businesses. I stress that we must assert the importance of supporting the SME sector and local businesses. That ties in with David's point about being positive. We always talk about the need to attract FDI, but we should make a strong statement about the general need to support local business and to recognise its contribution to the economy. I hear about that recognition consistently in the

subgroup and in meetings of the Strabane employment task force.

1951. **The Chairman (Mr Wells):** That is a helpful point to add.

1952. Are there any comments on point 3 of the Clerk's paper, namely the theme of skills deficit and lack of entrepreneurial culture?

1953. **Dr McDonnell:** I broadly agree with that.

1954. **The Chairman (Mr Wells):** Point 4 of the Clerk's paper refers to the high rate of economic inactivity in Northern Ireland and flags up the impact that the Province's high percentage of students have on those figures.

1955. We should stress that our public sector is not necessarily big, but that the huge inactivity sector skews the figures. That includes people in receipt of disability living allowance (DLA) or incapacity benefit, students, the retired, etc. Does anyone disagree with the contention that a large section of our community is inactive?

1956. **Mr Weir:** There is positive and negative inactivity. The fact that the figure for people in receipt of benefits is a lot higher than elsewhere is a problem for the economy. The fact that we have a higher percentage of students should be beneficial to the economy in the long run. We can contrast those.

1957. **The Chairman (Mr Wells):** Despite the number of students, one in ten adults is in receipt of DLA.

1958. **Mr Weir:** I am not disputing that, but a degree of differentiation must be made. The figures for incapacity benefit suggest that the gap between Northern Ireland and the rest of the UK is 6%.

1959. **The Chairman (Mr Wells):** No, that is six percentage points. It is an important distinction.

1960. **Mr Weir:** Of that, 60% was due to incapacity benefit. We are due to receive more figures to explain the student element.

1961. **The Committee Clerk:** Officials from DEL said that the same figures applied in the South, and student proportions had an impact there also.

1962. **Dr Birnie:** It is even more complicated than Peter points out, given that we export so many of our students.

1963. **Mr Weir:** I assumed that they were counting students resident in Northern Ireland.

1964. **Dr Birnie:** I think that that is measured by a "normally resident" criterion.

1965. **Ms Gildernew:** I wonder whether there is a correlation between those adults without adequate numeracy and literacy skills, and those in generational and long-term unemployment? If people cannot read and write well enough to hold down a job, the chances are that they are on those benefits to enable them to exist.

1966. **Mr Weir:** Areas that traditionally had high levels of unemployment 20 years ago now have high levels of incapacity benefit. That is because, down the years, Governments of various political hues wanted to keep unemployment out of the headlines. People have been pushed towards other benefits. They are economically inactive, but they do not count towards the unemployment figures. Areas such as Merthyr Tydfil in the Welsh valleys have some of the highest figures for incapacity benefit. I suspect that in parts of the UK and Northern Ireland, and perhaps the Republic of Ireland as well, there has been a desire to keep unemployment figures down. That is a large element of the figures for the economically inactive.

1967. **The Chairman (Mr Wells):** Do not mind if I shout your name; it is just to let Hansard know who is speaking.

1968. **Mr Dallat:** To pick up on Michelle's point, it is important to look for correlations between different factors. For example, a very large percentage of the several hundred people in prison have no basic skills, and even though prisoners are out of circulation, they are still included in the economically inactive figures.

1969. **The Chairman (Mr Wells):** Is everyone happy that, regardless of how we look at the make-up of inactivity, it is a problem that we must address?

1970. **Dr McDonnell:** We could dissect the virtual bits — the university students, and so

on. We were beginning to move the discussion towards reality, but, even excluding students, the inactivity rate is still high. Students will be relatively economically inactive, but there is not much that we can do about that. Let us deal with the areas that we can do something about.

1971. We grossly underestimate how difficult it is for people to return to work, particularly those women who have been out of work for five or 10 years rearing a family. That must be recognised. I know of female teachers who, after a few years out of work, have returned to work as classroom assistants rather than face the stress and trauma of going back and having to almost retrain. Equally, from time to time, I talk to people who had been making a valid and useful contribution to the economy only to find that returning to work after four or five years was a challenge. Those situations are not recognised.

1972. **Ms Gildernew:** I want to pick up on Alasdair's point that there is definitely a barrier to women who want to get back into the labour market. It is the prohibitive cost of high-quality childcare, particularly in rural areas. I know teachers and nurses — well-trained and skilled women — who, once they have three children, have to drop out of the labour market because they cannot afford childcare. That is an impediment that they cannot overcome.

1973. I am not sure what the figures are, but there are hundreds, if not thousands, of people who care for either elderly relatives or for people with disabilities. The carers become economically inactive as well. They are caring for people who perhaps should be in nursing homes or who need professional care but who are not entitled to it or who cannot afford it. As a result, a member of their family is out of the labour market as well.

1974. **The Chairman (Mr Wells):** The carers' allowance figures might give us some indication of the scale of that. I hope that when we get the statistics we do not find that 108 of the economically inactive are MLAs. *[Laughter.]*

1975. **Mr Weir:** They would have difficulty reintegrating into the real world.

1976. **Mr McNarry:** There would be nobody to look after us, that is for sure.

1977. **Ms Gildernew:** There would be a whole lot of classroom assistants.

1978. **Mr McNarry:** We need an MLA union.

1979. **The Chairman (Mr Wells):** Bear in mind that we are merely agreeing what should be included; we are not arguing about what policy to adopt.

1980. Point 6 is "Inappropriate fiscal environment —

1981. **Mr McNarry:** Chairman, perhaps we could consider that with point 17. That is the hot potato.

1982. **Dr Birnie:** Yes, it is.

1983. **Mr McNarry:** There is enough here for us to discuss, which is what we need to do. That would nearly take up a session on its own.

1984. **The Committee Clerk:** In writing the report, I find that new issues arise all the time. Many of the witnesses said that a cocktail of measures would be required, and that it is not a quick fix.

1985. Sir George Quigley today argued comprehensively in favour of lower corporation tax for FDI purposes, particularly as a beneficial shock for business start-ups. NICICTU then said that it preferred the equivalent amount in grant aid over a reduction in corporation tax. Clear issues, therefore, were raised. I shall meet with some DETI officials next Friday to learn how those issues might mix so that I can give the subgroup some advice on that. We must be clear, however, on the cocktail when it comes to the report.

1986. I thank David for his point. Yes, everything is included at this stage, but we shall discuss at the next few sittings what the subgroup will recommend.

4.30 pm

1987. **Mr McNarry:** We may have to have a vote on that when it comes to it.

1988. **Dr Birnie:** Mr Chairman, it comes down to a reduction in corporation tax versus tax credits. My preliminary judgement is that our



recommendation seems to be pointing towards the former.

1989. **Mr McNarry:** We must be able to stand over our decision. There is no way that I want to state my political placement now before any election. I do not want to be a big guy and plump for changes to corporation tax, only to be unable to deliver them.

1990. **The Committee Clerk:** DETI has promised to send me some research. It has not been completed yet, but DETI has enough at its disposal to provide a model of the impact that a reduction in corporation tax would have on jobs and on the economy.

1991. **Mr McNarry:** Sir George Quigley was very frank when he told us how Gordon Brown said this, the Prime Minister said that and the Secretary of State said the other.

1992. **Ms Gildernew:** And what they did not say.

1993. **Mr McNarry:** However, they did not go the whole hog on it.

1994. **The Chairman (Mr Wells):** Are we agreed on point 6 on the Committee Clerk's list of themes?

*Members indicated assent.*

1995. **The Chairman (Mr Wells):** We shall move on to point 7. I think that we all agree that there is an infrastructure deficit, including issues such as water, of course, but I think that we can easily agree on that point.

*Members indicated assent.*

1996. **The Chairman (Mr Wells):** Strong opinions were voiced in the evidence sessions on point 8, which concerns the underperformance of our tourism industry. That underperformance is quite easily measured as a percentage of GDP compared to, say, that of Scotland or the Irish Republic. We are miles behind. Our revenues are half those of the Republic by that measure.

1997. Alasdair, I know that you are very keen on the new growth areas such as biotechnology.

1998. **Dr McDonnell:** I cannot add any more on that, because I have harped on about it throughout the evidence sessions. I keep returning to the point that, although a great deal of pure research

is done in universities, it is academic research and is not being put into practical application.

1999. One way to extract wealth from universities is through QUBIS Ltd and UUTech Ltd. UUTech seems to be better funded and better structured than QUBIS. QUBIS receives perhaps £50,000 or £80,000 of core funding from Queen's a year, and it is in the market to get a few bob from whatever contributor to make up the rest of its funding. That is my understanding of the situation. It is not nearly enough, however, because some of our biggest hitters of today emerged from QUBIS's assembly line. It is a bit like an hourglass. The universities are at the top, with the industries at the bottom, and in between is the bottleneck where the funding should be but is not. Trying to apply the technology is like attempting to get through the biblical eye of the needle at times.

2000. Mr Chairman, that is my argument on that. Then it is a question of mining the available opportunities, but my experience in that field is limited to knowledge that I acquired years ago, when Israel was struggling economically and had to subcontract. It formed partnerships with companies in the US — the bilateral industrial research and development (BIRD) initiative. Our Radius programme — subsequently the Radian programme — was modelled on that, but it never quite took off. Israel, however, effectively became a subcontractor for American companies that were overloaded with R&D that they could not handle. It built the high-tech side of its economy through the BIRD initiative, and it is doing very well.

2001. Another issue that we go round and round without tackling is that our tourism industry gives people what it thinks they should want, not what they want. That is the simple flaw. People have told me time and time again that we keep shoving product at people, but that we do not ask tourists often enough what they want.

2002. Our tourism is very primitive. Canadian friends of mine stayed in a bed and breakfast somewhere and they told me that they had to drive for half a mile to a shop to get change because the woman who ran the bed and breakfast had no change for them when they went to

pay. Those are basic but off-putting failings. They said that when they were in Fermanagh they wanted to go to the Mourne, but the people in the guesthouse in which they were staying had no clue about how to go about finding a guesthouse in the Mourne. There is no network of links, although some work has been done.

2003. Some aspects of our tourism are very good and very homely but relatively primitive. Improving our tourism product is not rocket science. If tourists want to go hillwalking, let us invest in hillwalking; let us invest in what tourists want.

2004. **Ms Gildernew:** I am mindful of time: we are losing people.

2005. **The Chairman (Mr Wells):** Dr McDonnell is saying that underperformance in tourism should be one of the themes on which there has been a degree of consensus. Our debate on policy will be very interesting.

2006. **Mr McNarry:** All the themes should be included.

2007. **The Chairman (Mr Wells):** Let us try to get through them as rapidly as possible. I am sure that the next theme will get votes from the members on my left.

2008. **Mr McElduff:** North/South collaboration needs to be strengthened considerably, Chairman.

2009. **The Committee Clerk:** The Chairman talks about collaboration for mutual benefit. It is a balancing act.

2010. **Mr Weir:** The words are very well chosen.

2011. **Mr McElduff:** “To avoid unnecessary duplication of spending”; that is another way of putting it.

2012. **The Committee Clerk:** All the witnesses thus far have said exactly the same thing. They have been specific that they were not making a political comment, but that improved North/South collaboration would improve the whole economy. I hope that we can include that without any political overtones.

2013. **The Chairman (Mr Wells):** The Clerk has been very skilled in wording this item.

2014. **Dr McDonnell:** I was talking to someone last night — and this will warm Michelle’s heart — who told me that the promise of the M3 running through Aughnacloy to Derry is already having an impact on north Monaghan and the border areas of Armagh. People will be able to commute to Dublin in an hour — although they may not commute very far when the road is jammed. However, it is happening. Ironically, the political challenge for us is to take the politics out of greater North/South collaboration. We must depoliticise it and allow the economy the freedom to do what it does best: fill the gaps.

2015. **The Chairman (Mr Wells):** That strikes me as your agreeing to that theme being included.

2016. **Mr McNarry:** I take it that that comment is directed at the private sector.

2017. **Dr McDonnell:** Why?

2018. **Mr McNarry:** Because they are two jurisdictions.

2019. **Ms Gildernew:** Have you read the Good Friday Agreement? We are talking about mutual benefit and collaboration, which is not restricted to the private sector; it is very much overlapping.

2020. **Mr Ford:** I would have thought that we could have involved an element of university collaboration on research.

2021. **Mr McNarry:** There are political connotations to such collaboration that we must recognise. However, I do not disagree to discussing it and it is right to include it as a theme in the paper.

2022. **The Chairman (Mr Wells):** Do we believe that there is a high level of business crime? Is that an issue that needs to be dealt with?

*Members indicated assent.*

2023. **The Chairman (Mr Wells):** An issue that came up time and time again, and the statistics back it up, is the low level of R&D. Our percentages, compared to the Republic or the rest of the UK or Europe, were quite frightening.

2024. **Mr McNarry:** Perhaps somebody could research that with the witness from DETI who said that businesses were reluctant to get

involved in R&D and that there was a very low take-up of the tax credit. Should incentives be provided to get businesses involved in purposeful R&D?

2025. **The Chairman (Mr Wells):** Apparently there is very low take-up among small and medium-sized businesses.

2026. **Mr Weir:** I think that the Department for Employment and Learning spoke about the amount of red tape and hurdles around R&D and tax credits that was putting businesses off taking them up.

2027. **The Committee Clerk:** The Federation of Small Businesses said that. In fact, a lot of the witnesses have been saying the same thing: that there are a lot of tax credits available, but the bureaucracy around getting them is difficult. John Friel said that he had been eligible for R&D allowances and tax credits that he did not go for in the end because of all the form-filling. He just wanted a grant.

2028. **Mr McNarry:** The subgroup needs to accept that reality and find out what is being done about it.

2029. **Mr Ford:** That is the reality as regards small and medium-sized enterprises (SMEs) generally. Since Northern Ireland depends so much on SMEs, we need to find some way of addressing the issue more than other regions do.

2030. **The Chairman (Mr Wells):** All we need to agree today is that lack of R&D investment is a big issue. We do not need to try and solve the issue today.

2031. **Mr Weir:** Is there an additional point that too much bureaucracy is an impediment because it is a disincentive for people to take up grants? That is slightly different from just saying that there is low R&D uptake. It is the bureaucracy and red tape that form a barrier.

2032. **Ms Gildernew:** Absolutely. It is a disincentive. In the construction industry, filling in the paperwork for items such as Construction Industry Training Board training allowances is so time-consuming that half of the time, people do not bother with it. We must make it simpler for them.

2033. **The Chairman (Mr Wells):** We can add it to the list as point 18.

2034. **Mr McNarry:** Could we possibly add renewable energy here? A lot of research and development is going into renewable energy, and it is being driven by the private sector. The Government are also taking it up. The construction industry is going to have to adapt to it in 2008.

2035. **Ms Gildernew:** Could it be put into point 8 under new growth areas?

2036. **The Chairman (Mr Wells):** Yes, that is quite a neat solution.

2037. What about point 12 on the negative impact on implementation of too much Government?

2038. **The Committee Clerk:** I think we agreed that earlier on.

2039. **The Chairman (Mr Wells):** OK. Everyone agrees with point 13 to the effect that delays in planning inhibit investment. I cannot foresee any difficulty with that. The recent judicial review demonstrates the point. It states that all planning applications must be done in chronological order, should they be for harbours or dormer-window extensions. That is a big problem in my area. Everyone agrees that we must have a quick planning system for new investment opportunities.

2040. Do we have consensus on point 14, namely that a high proportion of small businesses are unable to expand or resistant to expansion?

*Members indicated assent.*

2041. **The Chairman (Mr Wells):** Point 15 is:

*“political instability with resultant poor match between problem and solution and discourages confidence in the economy”.*

2042. It is not number 15 in order of importance, mind you.

2043. **Mr McNarry:** If Barry McElduff does not come to the meeting we could get through that one quite well.

2044. **The Chairman (Mr Wells):** Regardless of the politics with a capital P, is everyone happy enough that political instability be included?

2045. **Ms Gildernew:** It needs to be in there.

2046. **Mr Weir:** I am not sure what is meant by: “*with resultant poor match between problem and solution*”. I do not disagree with the general point that it be included, I am just wondering what that actually means.

2047. **The Committee Clerk:** Some witnesses were saying that, for example, in terms of direct rule, Ministers are not in tune any longer. In fact, Sir George Quigley was saying earlier that previous Ministers, such as Roy Mason, pushed the Northern Ireland economy but perhaps that is less strong now. Therefore, the solutions that were applied tend not to be fit for purpose.

2048. **The Chairman (Mr Wells):** Number 16 is on the inability of small businesses to take advantage of procurement opportunities. I did not spot this one.

2049. **Mr Weir:** It came up today. Because of economies of scale, small firms are not in a position to bid for large procurement schemes or PPPs.

2050. **Ms Gildernew:** I would reword it. It sounds as though we are saying that small businesses are not able to take advantage of procurement opportunities, but these are usually policy-driven, and small businesses are excluded. In one of the first sessions, the Federation of Small Businesses talked about unbundling contracts in order to allow small contractors to be able to compete.

2051. **Mr McNarry:** I agree. It is unfair.

*Members indicated assent.*

2052. **The Chairman (Mr Wells):** Finally, we have point 17:

*“No quick fix! Need for a radical solution that includes a range of targeted fiscal tools based on long-term needs, social partnership, stimulating the private sector through a business friendly environment”.*

2053. **Mr McNarry:** That is a lovely sound bite: “no quick fix”. I find it difficult to buy into that unless it is fully expanded. There is no quick fix at all.

2054. **Mr Weir:** I do not disagree with point 17: the only complication is that all of the other points are looking at the impediments. Maybe that is not the intention of point 17, but it does not sit right with the others.

*4.45 pm*

2055. **The Committee Clerk:** A lot of the witnesses have been saying that there is not a single solution, and as a subgroup we need to recognise that we are offering a combination of solutions that meet particular needs.

2056. **Mr McNarry:** Could we add an eighteenth point?

2057. **The Chairman (Mr Wells):** We already have a point 18.

2058. **Mr McNarry:** What is it?

2059. **The Chairman (Mr Wells):** Bureaucracy is listed as the eighteenth.

2060. **Mr McNarry:** Can we add a nineteenth point?

2061. **The Chairman (Mr Wells):** The “quick fix” referred to the option of a reduction in corporation tax. John Simpson pointed out that the biggest beneficiaries of that would be the four big banks. That would do nothing to increase employment or assist the economy.

2062. Would you like to suggest a nineteenth point, Mr McNarry?

2063. **Mr McNarry:** I want to elaborate on the educational stuff that is coming through from every presentation. We heard it not only from the Department for Employment and Learning and from the Department of Education, but also from industry. There seems to be a focus going back to education, and it seems to be prevalent in nearly every point that we discuss. I wanted to see if we could add a nineteenth point so that we do not forget it.

2064. **The Chairman (Mr Wells):** That is a very valid point. Do members agree to add a point 19 on educational underpinning?

*Members indicated assent.*

2065. **Ms Gildernew:** Are we removing “no quick fix” from point 17? I do not think we



should. Dr Gilleece's paper and Dr Whitaker's 1958 paper show that there is no quick fix.

2066. **Mr Weir:** It depends on how you list it. I would not remove it from the report; but we are creating a list on the basis of the impediments, and saying "no quick fix" is not an impediment. That belongs among the solutions rather than the impediments. It is a question of where you put it rather than whether it goes in.

2067. **The Chairman (Mr Wells):** David, how different is your suggested point 19 from point 3, which dealt with "skills deficit and poor correlation between business needs and education provision"? Do you want to add something or is yours so radically different that you feel that it requires something additional?

2068. **Mr McNarry:** Can we leave in a point 19 so that it can be elaborated on? It may come out in the third point, but I am happy enough with that. A major education policy initiative is going on that I know we cannot get involved in, but we must keep a watch on it.

2069. **The Chairman (Mr Wells):** The quorum is in danger. We need to rattle through the Clerk of Business's paper very quickly, because I can see that nearly everything has been discussed already. Can anyone spot anything on that list that we have not already included in our discussion of the Committee Clerk's paper?

2070. **The Committee Clerk:** Chairman, apologies for giving you two papers, but we were working to tight deadlines.

2071. **Dr Birnie:** Chairman, we might transfer the theme of "brain drain" from the Clerk of Business's paper; it is supplementary.

2072. **The Chairman (Mr Wells):** Yes. Also, what about the point dealing with the negative impact of high insurance costs?

2073. **Dr Birnie:** Yes, that is additional. We should transfer both onto the main list.

2074. **The Chairman (Mr Wells):** Lots of them have come up in a slightly different wording.

2075. **Dr Birnie:** Have energy costs been covered somewhere?

2076. **The Committee Clerk:** They are covered in point 6, alongside insurance.

2077. **Mr Weir:** We might incorporate into point 12 of the Committee Clerk's list the observation that:

*"public sector (departmental) concentration on creation of visions and strategies [is] allied to a failure or delay in implementation".*

2078. **Ms Gildernew:** Yes, combining it with the need for greater operational agility.

2079. **Mr Weir:** It is perhaps the same point but might need rewording.

2080. **The Chairman (Mr Wells):** That is an important point because, for instance, we have been told that the new transport infrastructure will not start until 2015. That seems very slow.

2081. **Mr Weir:** Also, if you look at the scoring for the building of schools, a lot of schools are annoyed that announcements were made five years ago but nothing has happened. If the construction industry is not physically building the stuff that should have been built, there are implications on both sides. John Simpson highlighted that. Point 12 could be elaborated to set out those implications.

2082. **Mr Dallat:** Perhaps the subgroup could be given a broader remit as regards infrastructure. I know that this is an economic subgroup, but 50 people are killed on the roads here each year, and that has a huge economic fallout. The economists will calculate so many thousand pounds per person and try to put a value on them. However, given our horrendously bad record, the paper should reflect the fact that loss of business is not the only concern; there is a wider aspect to the economic loss in terms of hospitals being tied up and insurance claims — not to mention the emotional aspect, which is obviously the most important.

2083. **The Chairman (Mr Wells):** That takes us up to number 20, depending where number 19, Mr McNarry's proposed point on education, is placed. Are insurance costs covered?

2084. **The Committee Clerk:** Yes, they are included in the paper.

2085. **Mr Ford:** Number 6 on the Committee Clerk's list includes insurance.

2086. **The Chairman (Mr Wells):** So we have reached number 19.

2087. **The Committee Clerk:** I am very conscious of the time. I have got a lot out of this meeting. It was only scheduled to give me a feel of where the subgroup stands, because the report has to be completed in the next couple of weeks.

2088. **Mr McNarry:** My only disappointment — and I expressed it earlier on — is that it does not look as if the subgroup will be able to hear a young person's perspective on the future.

2089. **The Committee Clerk:** I will ring the Youth Council.

2090. **Mr Weir:** There are at least a couple of us on the subgroup under 40.

2091. **Mr Ford:** We could get Naomi Long to chair that session.

2092. **Mr Weir:** I suppose it depends on how one defines young.

2093. **The Chairman (Mr Wells):** Forty-nine.

2094. **Mr McNarry:** I certainly do not consider anybody in here to be young.

2095. **The Committee Clerk:** I consider myself to be young at heart.

2096. Three witnesses are scheduled to appear on 10 August; the Quinn Group has now withdrawn. The best that I can do is to ring the Youth Council to see if it could send a couple of young people. It is most unlikely, but I will make a request nonetheless.

2097. **Mr McNarry:** I am disappointed. I appreciate that there has been some misunderstanding. However, the subgroup discussed this matter at the very first meeting, and it was decided that the Youth Council should be invited as witnesses. Having read the Youth Council's response, I do not think that it has understood what we are looking for.

2098. **The Committee Clerk:** It was unclear.

2099. **Mr McNarry:** A contribution from the Youth Council would add value.

2100. **The Committee Clerk:** I will do my best, but it may be too late. I think that there was an issue with the handover between Cathie White and me —

2101. **Mr McNarry:** I am not getting into that.

2102. **The Chairman (Mr Wells):** Are we content that the Committee Clerk's paper covers the sustainability of the Northern Ireland economy, given its small domestic market and proximity to a competing system, and the loss of incentive and threat to jobs posed by phasing out industrial derating and introducing water charges?

2103. There are only 1·7 million people in our domestic market, but I did not hear mention of the small domestic market of Northern Ireland in the first round of discussions. The storm clouds are gathering over industrial derating, water charges and so on.

2104. **Mr Ford:** These issues would fit in with point 6, which covers excessive business costs such as an inappropriate fiscal environment, duty, rates, insurance and bureaucracy.

2105. **The Chairman (Mr Wells):** That deals with current problems. Should we include future problems?

2106. **Mr Ford:** The words "present and future" could be added.

2107. **The Committee Clerk:** Point 6 very much covers the current position and the traditional arguments. One of the recent witnesses — John Simpson, I think — talked of the conventional arguments, including the peripheral nature of the economy. The report will cover those points. A number of witnesses have contrasted the current position with that in which we want to be. The report should include the positives and negatives of the traditional arguments and also consider more novel approaches.

2108. **The Chairman (Mr Wells):** The subgroup still has a quorum, despite David McNarry's departure. Are members happy enough that we have hit all the right buttons? We have 19 points here.

2109. **Mr McElduff:** Is the subgroup satisfied that balanced economic development east and west of the Bann is included?

2110. **Ms Gildernew:** It is not really in there.

2111. **The Committee Clerk:** It is covered to a degree only. It is mentioned under infrastructure and east-west roads.

2112. **Mr McElduff:** The matter is evidence-based as well. I have heard witnesses mention it a number of times.

2113. **Mr Weir:** My point is slightly more generic, but the list has to be economically balanced. There is a range of issues: there are east-west and urban/rural dimensions, and issues around Greater Belfast and the rest of the country. As mentioned earlier today, there are even issues regarding jobs in Belfast and its hinterlands — for example, a couple of the Government Departments are shifting from Rathgael House to Belfast. There is a range of issues concerning equity and balance that must be represented in the economy.

2114. **The Chairman (Mr Wells):** Have we captured the key issues that have emerged to date? This is members' last chance to raise any burning question that they feel have not been covered. I cannot see anything that is not covered by those headings. I am sure that the other Chairmen will not exclude any emerging issue that suddenly arises.

2115. Any other issues?

2116. **Mr McNarry:** If members are agreed, Mr Chairman, I shall take only five minutes. I appreciate and understand the work that has been done in putting together timetables. However, I have a difficulty with the meetings running over time. I can reschedule my diary to accommodate an extra 10 or 15 minutes, but, on several occasions, meetings have run more than an hour beyond the time allotted. I acknowledge my contribution to that. However, some of the people who have given evidence — is Hansard recording this?

2117. **The Chairman (Mr Wells):** Yes, it is.

2118. **Mr McNarry:** Can we turn off the recording?

2119. **The Chairman (Mr Wells):** Can we?

2120. **The Committee Clerk:** Not while the subgroup is sitting. The subgroup has already taken the decision that Hansard will report everything.

2121. **Mr McNarry:** Witnesses could perhaps be asked to shorten their presentations. Without mentioning any particular groups, some presentations went on too long. It is eating into our time, and we are flowing from one subject to another.

2122. **The Committee Clerk:** Witnesses have all been advised to make 10- to 15-minute presentations. One presentation today lasted the guts of 25 minutes.

2123. **Mr Weir:** To be fair, work becomes difficult as well. We are depending on people who, when questioned, want to answer fully, but they can go on too long. It is very difficult.

2124. **Mr McNarry:** I am only saying that, because I had to go due to another commitment and it left only six members present. I would not want to offend my colleagues in that situation, but it would irritate me that I had let people down by having to go. Perhaps we should do something about it.

2125. **The Chairman (Mr Wells):** The other option would be to have a deputy from your party on standby, ready to replace you at the appropriate time.

2126. **Mr McNarry:** We cannot do that. If you really want to get stroppy about it, it is not acceptable for the sitting to overrun by an hour. We were given a schedule that said that today's sitting would end at 1.15 pm, and at 2.15 pm we were still here gassing.

2127. **The Committee Clerk:** The length of the meeting is a matter for members. The Chairmen have been encouraging concise questions and presentations. This is a huge and interesting area of debate, and one would expect sittings to overrun. From listening to the questions and from reading Hansard, I think that the standard of the questions has been excellent; they will elucidate all sorts of arguments and responses. All that I can ask you to do is to be as concise

as you can in your questions. With due deference, political representatives do tend to prologue their questions. If we can avoid that and encourage concise presentations —

2128. **Mr Weir:** We have also probably pushed our report back another week. To be fair, in normal circumstances, there is no way that we would have so many sets of witnesses.

2129. **The Committee Clerk:** The subgroup is squeezing to its maximum. You are squeezing a normal inquiry that would take nine months into —

2130. **Mr McNarry:** I am conscious that many colleagues have travelled longer distances than I have. It has only happened once, but, nevertheless, I have been the cause of stopping a sitting because of a prior commitment. My commitments are based on the information that I have in my diary. I try to ensure that my attendance at the subgroup does not clash with other commitments, and I apologise to anybody who was affected.

2131. **Mr Dallat:** Mr Chairman, as a mere substitute who has travelled a distance, I do not think there is an awful lot wrong. The workmanlike atmosphere here, the friendship among the different members and our good relationship with those who give evidence cannot be exchanged for the odd wee hiccup. Sometimes it has been members' fault for asking elongated questions, and sometimes it has been the fault of over-anxious witnesses. However, it would be wrong to give the impression that our deliberations have been anything but very good.

2132. **The Chairman (Mr Wells):** I am very happy with the standard of the evidence and the questions. Obviously, I am biased, being the Chair, but I have certainly seen an awful lot worse.

2133. **Mr McElduff:** I propose that this meeting end. *[Laughter.]*

2134. **The Chairman (Mr Wells):** I must inform you that the date of the next meeting is Tuesday 8 September at 10.00 am, and the witnesses are Moy Park Ltd, the Ulster Farmers'

Union, Wrightbus Ltd and the Department of Finance and Personnel.

*Adjourned at 5.01 pm.*



## Tuesday 8 August 2006

### Members:

The Chairman, Mr Alban Maginness  
Dr Esmond Birnie  
Ms Michelle Gildernew  
Mrs Naomi Long  
Dr Alasdair McDonnell  
Mr Barry McElduff  
Mr David McNarry  
Lord Morrow  
Mr Sean Neeson  
Ms Margaret Ritchie  
Mr Peter Weir

### Witnesses:

Mr Eric Reid	} Moy Park
Mr Clarke Black	} Ulster Farmers' Union
Mr Kenneth Sharkey	
Mr William Wright	} Wrightbus Ltd
Mr Mike Brennan	} Department of Finance and Personnel
Mr Bruce Robinson	

*The subgroup met at 10.11 am.*

*(The Chairman (Mr A Maginness) in the Chair.)*

2604. **The Chairman (Mr A Maginness):** I welcome everyone to this meeting of the subgroup. I emphasise to members that it is a necessity that they turn off their mobile phones completely. That is very important for the recording of proceedings, because mobile phone interference has caused Hansard serious difficulties.

2605. I have received apologies from David Ford. Naomi Long is attending in his place. I have also received apologies from Mitchel McLaughlin, for whom Barry McElduff will be deputising, although he is not present at the moment. Are there any other apologies?

2606. **Mr Weir:** Lord Morrow is here in place of Ian Paisley Jnr.

2607. **The Chairman (Mr A Maginness):** Let us move on to the draft minutes of the two meetings on Thursday 3 August.

2608. **Mr Neeson:** I attended on 3 August, but that has not been recorded in the minutes.

2609. **The Chairman (Mr A Maginness):** It is recorded that you were in attendance at the first meeting but that you did not attend the afternoon meeting. Is that correct?

2610. **Mr Neeson:** Yes. I beg your pardon.

2611. **The Chairman (Mr A Maginness):** Are members content that the draft minutes are an accurate record of proceedings?

2612. **Mr McNarry:** I have not had time to read the draft minutes carefully. I know that they are just minutes, which take us through what we discussed, but an issue was raised about writing to the Secretary of State, or to whomever, to ascertain a breakdown of the £16 billion package about which he had been talking. I do not see that recorded, although I am sure that it appears in Hansard. I do not see a letter from anyone about that either.

2613. **The Committee Clerk:** I have mentioned that matter to Northern Ireland Office officials, so they are aware of it, but we have not formally put it to them yet. That would not appear in the minutes of proceedings because it was not put as a question, even though agreement was registered.

2614. **Mr McNarry:** Can we get a letter or some information that would be useful to the proceedings?

2615. **The Chairman (Mr A Maginness):** Yes. A letter will be sent, and I presume that we shall receive a formal reply.

2616. **The Committee Clerk:** The Department of Finance and Personnel (DFP) or the Department of Enterprise, Trade and Investment

(DETI) might be best placed to answer that question. There will be an opportunity today to question DFP. The Strategic Investment Board (SIB), to which the £16 billion is going, falls under the authority of DFP.

2617. **Mr McNarry:** I understand that, Chairman. I would have thought, however, that if the Committee had difficulties with an issue, it would ask the Secretary of State where he got his information or to what he was referring.

2618. **The Chairman (Mr A Maginness):** Are you content for the moment, Mr McNarry?

2619. **Mr McNarry:** Yes.

2620. **The Chairman (Mr A Maginness):** Thank you.

2621. Can we take it that members are content with the minutes?

*Members indicated assent.*

10.15 am

2622. **The Chairman (Mr A Maginness):** OK. We can move on, and the minutes will be published on the Assembly website.

2623. I note that the last few minutes of the 3 August meeting of the subgroup were inquorate and cannot, therefore, be officially recorded. An informal recording has been obtained and is included in members' papers, although part was lost because of mobile phone interference. I therefore re-emphasise the importance of keeping our mobiles switched off.

2624. I would like to move on to the matter of the subgroup's Chairpersons. In your papers you will see a letter from the Secretary of State that details nominations from the Ulster Unionists, the SDLP and the Alliance Party to chair the subgroup. Naomi Long will chair Thursday's meeting. Unfortunately, Mr Jim Wilson will be unavailable throughout August. The Ulster Unionists have advised that they wish to nominate an alternative Chairman through the Preparation for Government Committee. Chairpersons will be allocated on a rotational basis, subject, of course, to availability. Members have a revised work plan showing the new chairing arrangements.

2625. **Mr McNarry:** I hope that my colleague David McClarty will be acceptable as a replacement for Jim Wilson; I wish to advise the subgroup that we intend to proceed with that nominee.

2626. May I draw attention to a procedural issue — and I intend no mischief. I see that my colleague Naomi Long is sitting beside me. It is perhaps a matter of poacher turning gamekeeper that a member can attend the subgroup as a delegate and then return to chair it. I have no problems with that. However, since I am bound to be asked about it, I would like some assurance that such a procedure is perfectly in order. It is unique.

2627. **Mr Neeson:** It would be very unlike David to be malicious.

2628. **Mr McNarry:** It is valuable, for the sake of continuity, that the other Chairmen have sat in on these meetings. When Jim Wells was in your position, Mr Chairman, and — what do you call the other fellow?

2629. **Mr Weir:** Francie Molloy.

2630. **Mr McNarry:** They would be sitting there taking notes. She is sitting here at this table and not down there. That does seem a bit different.

2631. **Mr Neeson:** It is good experience, David; Naomi will know what is going on.

2632. **Mr McNarry:** It is a serious question.

2633. **The Chairman (Mr A Maginness):** Does the Committee Clerk have advice for the subgroup on that matter?

2634. **The Committee Clerk:** There is no procedural reason why a member cannot attend one meeting as a substitute and another meeting as Chairman. It would be inappropriate, however, to be Chairman while being a nominated, full-time member, as they are entirely different roles. However, there is no procedural impediment to Naomi's attending today's meeting as a substitute and chairing another meeting.

2635. **Mrs Long:** I am sorry that my presence has caused anyone such consternation. However, when in the Chair, I intend to be impartial. I understand the difference between attending as

a representative of David Ford today, and taking the Chair at another meeting.

2636. **The Chairman (Mr A Maginness):** The important thing is that the Chairperson acts independently and impartially, as Mrs Long said.

2637. **Mr McNarry:** The background, unless I am incorrect, is that this subgroup must be attended by members of the Preparation for Government Committee and their nominees.

2638. **The Committee Clerk:** I took advice on that at the outset. There is no specific requirement that the formal nominees must attend subgroup meetings. The nominees can be substituted, so it is a bit of a procedural nonsense.

2639. **Mr Neeson:** The Deputy Speakers also sit in the Assembly as Members. What is the difference?

2640. **The Chairman (Mr A Maginness):** When they chair sittings, they act independently; they are not partisan.

2641. **Mr McNarry:** As I said, I do not have a problem with this matter. I am identifying the issues now and soliciting responses so that, if I am asked, they are on the record. I am intrigued by the Committee Clerk's answer; I am a member of the Preparation for Government Committee, and my interpretation of that was pretty clear. It does not add up to the Committee Clerk's. From whom did he take this advice?

2642. **The Committee Clerk:** I took advice from the Preparation for Government Committee staff. I can certainly formalise that advice, if members wish.

2643. **The Chairman (Mr A Maginness):** It would be helpful if it were formalised so that the position is clear.

2644. Let us move to the work programme. A letter from Stephen Quinn, permanent secretary of the Department of Enterprise, Trade and Investment, has been tabled, along with the latest reports from the four subgroups of the Economic Development Forum (EDF). Those reports will be treated as written evidence. If this subgroup decides to meet after 25 August, it may be possible to take evidence from the

chairpersons of the EDF's subgroups on innovation, enterprise, skills and infrastructure.

2645. As for Mr McNarry's suggestion, the Northern Ireland Youth Council was contacted to invite oral evidence from young people on 10 August. David Guilfoyle, the chief executive of that body, has referred the subgroup to the Northern Ireland Youth Forum. We are awaiting a response from that body.

2646. **Ms Ritchie:** At the last meeting of the subgroup that I attended, there was a suggestion that we should obtain evidence from the enterprise agencies. Is there any further information on that? I apologise for my absence last week — Mr Dallat deputised for me. I note that Enterprise Northern Ireland gave evidence then. Does it represent the enterprise agencies?

2647. **The Committee Clerk:** Yes. Enterprise Northern Ireland is the representative body.

2648. **The Chairman (Mr A Maginness):** Are you satisfied with that, Ms Ritchie?

2649. **Ms Ritchie:** Yes.

2650. **Dr Birnie:** Mr Chairman, you will love me for suggesting another witness. We could take either oral or written evidence — I know time is short. Dr Graham Gudgin of Regional Forecasts has written an article on corporation tax in the current issue of 'Fortnight'. He has some interesting perspectives on the subject. He is rather more sceptical than some of the witnesses we have heard from so far.

2651. **Mr McNarry:** He was proposed at an earlier meeting.

2652. **The Chairman (Mr A Maginness):** I think it might be best to consider that position. It may well be, given the time available, that we may not be able to facilitate Mr Gudgin, but it may be possible to get a written submission from him or, indeed, get a copy of the article in 'Fortnight' and append it to the record of the proceedings. That might be a useful way of dealing with that. Are you content with that?

2653. **Dr Birnie:** I suggest that the Committee Clerk write to Mr Gudgin to see whether he could provide a written submission. I do not know if we have time for oral evidence but we

do have time for written evidence. He could probably expand on the 'Fortnight' article.

2654. **The Committee Clerk:** We do have time, Mr Chairman. There is no difficulty with that. The time frame may be an issue for Mr Gudgin, but there is no difficulty for us. The subgroup's last evidence session is this Thursday, but we have slotted in a written evidence session for next Tuesday, and if we get something slightly later than that from him, it would not be a problem.

2655. **Mr Weir:** Indications were given that representatives from the Youth Council would be coming.

2656. **The Committee Clerk:** They have not responded at all. I have left messages for them.

2657. **Mr Weir:** Perhaps if they do respond, they could be slotted in next Tuesday.

2658. **The Committee Clerk:** We can give them a slot at the moment on Thursday. We had scheduled three evidence sessions on Thursday, but one group has dropped out. I cannot remember which one.

2659. **Ms Gildernew:** The Quinn Group.

2660. **The Committee Clerk:** The Quinn Group dropped out, and we were going to slot the Youth Council in, if we could get a couple of young people to come along.

2661. **Mr Weir:** If they do come on Thursday, we can adjust the timings of the evidence sessions, which are due to run until 1.15 pm. We could reduce each session from 60 minutes to 45 minutes.

2662. **The Chairman (Mr A Maginness):** That could be accommodated.

2663. The draft transcripts of last Thursday's evidence session and the later meeting on the emerging issues have been issued to members with a deadline of close of play tomorrow, Wednesday 9 August, for proposed amendments.

2664. We will now move to the open session. As agreed, we have four sets of witnesses. Each has been allocated a 45-minute slot. We will have three hours of evidence, and if we keep to that, the meeting should be over by 1.30 pm or

thereabouts. I encourage colleagues to keep their questions to witnesses brief and focused on the terms of reference, which are in members' packs.

2665. I call the first witness, Mr Eric Reid, who is the production director of Moy Park. Mr Reid, you are very welcome to the subgroup. A 45-minute slot has been allocated to you. Perhaps you will take 10 or 15 minutes to make your presentation, and then there will be questions from colleagues around the table. You have provided a written submission, and we are grateful for that.

2666. **Mr Eric Reid (Moy Park):** Good morning, everyone. Thank you for allowing me to outline some of the challenges that we see. I do not know if members want me to read through my submission, but I will highlight some of the major issues.

2667. **The Chairman (Mr A Maginness):** That would be best.

2668. **Mr Reid:** I have been in business in Moy Park for more than 40 years. We started with a handful of people, and today we employ about 9,000, about half of whom are in Northern Ireland. Our core business was built up in Northern Ireland. We were originally part of the Moygashel textile group, and we go back to the Second World War, when we produced linen for parachutes. We built up the idea of working with farmers to grow the flax that was used to produce the parachutes etc.

*10.30 am*

2669. In the early 1960s, the company decided to move into poultry farming, on the principle of working with people in an integrated chain, from farm base to processing, trying to build relationships with retail customers. Since then, and all through the troubles, we have grown the business. Today, Moy Park is the largest poultry processor in the United Kingdom.

2670. The United Kingdom has the largest poultry population in of any European member state. The EU poultry industry uses around 20% of all cereals in Europe and directly employs more than 500,000 people. The European market presents a major challenge for us. In the



final part of my presentation, I will speak about the implications of the European market on fresh product.

2671. I am not here to talk about the survival of the Northern Ireland industry, which is where our interest really lies, but of the intensive industry in Europe. That also rolls over into the red meat and milk producing industries. Other member states are already undertaking major rationalisation programmes, spending money to make and support winners — the better companies — to try to ensure that they can survive in the global economy. We can bring that back to Northern Ireland.

2672. Moy Park has invested more than £100 million over the last 10 years, which has been supported by £17 million of Government funding, for which we are very grateful. You may say that that is very good, but it should be compared to what is happening across the border. In one sector alone, the Irish Government have contributed £100 million to a £300 million rationalisation programme. The funding that we received was very good, and we are very grateful for it, but current Government proposals would scrap some of that assistance. That will move companies away from Northern Ireland and closer to the marketplace.

2673. For example, we are currently investing approximately £60 million in England to enlarge a factory and invest in the agribase to support that. We have done something similar in Northern Ireland. Michelle Gildernew and Lord Morrow have visited our plant in Dungannon and have seen that it is a global, profitable plant. We can meet the challenge, despite the extra transport costs of bringing in raw material and transporting around 170 containers of finished goods to England every week. When that is rationalised, and such a scale of production is reached, we can take on anyone in Europe.

2674. We cannot take on the rest of the world, and people must understand that. European politicians must understand that we cannot take on Third-World countries, or countries such as Brazil and Thailand, where labour rates are 20% and capital costs are a fraction of those in Europe. Those countries do not have the same

social services provision that we have, and Europe is a magnet for those Third-World countries. Those countries want to export their products to Europe because of the high prices. Europe is the gold-plated economy for the Third World.

2675. There is a Third World situation in Europe, although people may not realise it, in the 10 new member states. Moy Park is now part of an international group with companies in Hungary and Brazil, for example. Through visiting those countries, and having been involved in purchasing companies in Brazil, I know what is happening. We cannot compete with such countries.

2676. The UK, and especially Northern Ireland, must have a clear strategy for agriculture. If I ask anyone in Government what is that strategy for the next 10 years, I do not get a clear definitive answer. What is that strategy? I am not interested in short-term environmental measures; they are all very good, and we support them, but we must know where we are aiming to go.

2677. The UK poultry industry produces 15 million chickens a week, with overall consumption of 25 million chickens a week. Around 60% of the market is self-sufficient. However, poultry is still being imported into Europe, whereas the United States, Brazil and Thailand no longer import any poultry.

2678. Where is the level playing field? Those are the types of challenges that we face. That is the position on the marketing side.

2679. Moy Park is trying — and I have spoken to one or two members of this subgroup about this — to promote its strong belief that fresh means fresh. If people want to buy frozen products, they have had the opportunity to do so for many, many years. Somehow or other, the retail industry has been able to go direct to overseas countries to identify companies prepared to export to Northern Ireland. Moy Park processes slightly more than three million chickens a week, but it must compete with companies such as Tyson Foods, which processes more than 45 million chickens a week, and Sadia SA of Brazil, which processes in excess of 15 million chickens a week. They

are big players in the so-called Third-World economies, especially in Brazil.

2680. In the consumer era, if we allow frozen products — whether cooked or in ready meals — to be brought into Northern Ireland, defrosted and placed in chilled cabinets, consumers will believe that they are fresh. Although the products are not labelled as fresh, their being sold in chilled cabinets encourages the understanding that they are fresh. In very small print, consumers might see the words “do not refreeze”, but the busy consumer does not have time to look at the very small print. If they see something in a chilled cabinet, they believe it to be fresh.

2681. For many years, consumers have had the choice to buy lower cost frozen products, but in the UK and in many other member states, they have decided to opt for fresh products. The UK market is driven dramatically by fresh products: 85% to 90% of all food purchased is fresh. Consumers may take that food home to freeze it, but at least it was fresh when they bought it.

2682. I represent the UK industry in Brussels. I have been to meetings of DG VI and DG SANCO, and I have met Commissioner for Agriculture and Rural Development Mariann Fischer Boel and Commissioner for Health and Consumer Protection Markos Kyprianou. Although they understand and accept the issues, I can never get a decision from them. There are 25 member states fighting on this issue together. Agriculture is the number one industry in the Province. If we cannot win this battle, what is the alternative? The textile industry has gone; the shipbuilding industry has gone. I want the members in this room to tell me: what is the alternative?

2683. The agro-industry supports the whole rural economy. It supports the little villages — Carrickmore, Caledon, Dungannon, Ederney, those down by Enniskillen. It is the main industry in the Northern Ireland economy. If we kill those little rural villages, where will our people go? Which industries will they go to for work? What is the alternative? The service industry is moving to India, where wages are a fraction even of those paid in Brazil. What is

the alternative? What new industry will replace the agro-industry?

2684. Members could say that in the past five years, Moy Park has employed a large number of foreign workers. They could be referred to as foreign workers, but they are members of our community from the 25 member states of the European Union. As Europeans, we must support our own house first, and the vast majority of Moy Park’s foreign workforce comes from the new member states. Some are from Portugal, but quite a few are from central Europe.

2685. In Northern Ireland, education is a bit like going to church. Once a person gets his or her first communion, it is a bit like a passing-out parade. When people go to school in this country and they reach 15 or 16 years of age, unless they are very bright, they leave school. Where do the young people of 15, 16 or 17 years of age go? Northern Ireland must have continual education. There should be an academy from which education can roll straight into industry. We must find a mechanism to do that.

2686. This will shock members: for the past number of years, Moy Park has received a little support from the Government for a pilot adult education programme. Up to 20% of our workforce — I am not talking about the Portuguese or those from central Europe, but those who were educated in Northern Ireland — cannot read or write.

2687. It is disgraceful that we have such a situation in what is perceived to be one of the world’s leading economies. We have to address that issue. We can do something to bring people into the factory environment so that they can enjoy life and learn new skills.

2688. Every operation in our factories has to be auditable. Retailers and consumers expect everything to be fully traceable. Everyone must be able to read, write and understand computers. We need to do much more, and Moy Park is prepared to do that. The company has spent money on education and has put over 2,000 people through the NVQ programme up to level 4; level 3 is fairly standard today. It costs money, and we should receive more support to

help us to drive up the standard of our young people. Education is very important.

2689. Moy Park has worked well with the veterinary division of the Department of Agriculture and Rural Development on research and development. Agriculture is the main employer in the economy, and we need to have a strong veterinary division; that must be maintained at all costs. We should be leading the world. John Thompson and Sons Ltd in Belfast is the largest feed mill in the United Kingdom, and it has the highest standard of biosecure feed. In partnership with that company, Moy Park has been able to establish a situation where 18% of all breeding stock in Europe comes from farms in Northern Ireland; Moy Park does the marketing.

2690. The Northern Ireland Manufacturing Focus Group has worked hard on the rates issue, and we support it. We cannot allow Northern Ireland to become a desert. Moy Park is part of an international group. Why should we tell our shareholders to invest in Northern Ireland? We need to have some advantage. Raw materials cost us money; outward shipping costs us money. Why should anyone invest here?

2691. Across the border we can see what the Government there do for industry. There are much lower rates, and there are also tax advantages. The subgroup has reports from the Confederation of British Industry that highlight that. These are real issues. We are not against the payment of taxes, but if we do not have a workforce, the Government will not receive those taxes. Moy Park employs 9,000 people who pay taxes.

2692. We must ensure that we have a competitive base on a global scale. We need that strong base, so let us cap tax rates or find some way in which the most profitable companies pay a higher percentage. Companies cannot pay rates if they are not profitable; they will close down an operation and move to another part of the world. We are closing a small plant in Fermanagh. I have discussed this issue with a deputation from political parties. It is the start of rationalisation: Farm Fed in Coleraine closed down recently; the Grampian Food Group has closed

down two Scottish operations and is now closing down an operation in the north of England.

2693. This is happening in our own sector. It is not happening only in Northern Ireland but in fringe areas of Europe, where transport costs in and out are a major burden. That trend will continue with the rising cost of fuel. The issue of fuel duty in Northern Ireland should be addressed. The Government are losing money because people drive a few miles over the border and fill up their tanks. That is not an advantage for us: we have to run our factories, and I cannot bring fuel across the border. The cost of energy must be competitive, and it is not; it is 20% more expensive in Northern Ireland compared with our English operations. That is why we must cap rates at 25% or 30%.

2694. The other area of concern is red tape. In Europe we should aim to be an inch in front of the rest of the world, not a mile, but there is too much red tape. We want to have the best environmental and welfare standards, and the best audit systems, to ensure that standards are maintained. A new integrated pollution prevention and control (IPPC) regulation has been introduced, and the Government are proposing that their employees will audit farms that have to comply with that regulation at a cost of over £2,000 per farm, per annum. Once farmers have complied with the regulation — and they require capital to do that — it is simply a matter of professional audit companies coming to farms and ticking the box. That can be done by independent audit companies for a few pounds a year. The Government are gold-plating regulations. We must find out how we can put Northern Ireland plc ahead, but we should not be gold-plating. Controls for safe food, a safe environment and the welfare of our people and stock should be met at the lowest possible cost.

*10.45 am*

2695. **The Chairman (Mr A Maginness):** Have you covered all your points of substance?

2696. **Mr Reid:** Yes.

2697. **The Chairman (Mr A Maginness):** We will move on to questions, if you are happy with

that. Several members would like to ask questions, and I will take them in order.

2698. **Ms Ritchie:** Mr Reid, you are welcome to the Committee. In your submission you referred to the lack of a clear strategy on food production sustainability in the UK and the European Union. What are the clear components of that strategy, and what was the outcome of your discussions with the Department of Agriculture and Rural Development and with the various directorates in the European Union?

2699. Your submission mentioned the need for a skilled workforce. You referred to the need for an academy to roll out post-GCSE students to the factory floor for ongoing training. What discussions and outcomes have you had with the Department for Employment and Learning and with the Department of Education?

2700. **Mr Reid:** With regard to the clear strategy, the Government must work with the industry to back winners. There has been much rationalisation in Northern Ireland, and Moy Park completed the exercise with its Dungannon plant. Moy Park had contracted with five feed companies, but they have been reduced to one large company, which supplies us with our chicken feed. Therefore, we must bring scale into our business. That will also have to be done in other sectors such as the dairy and beef industries, and we must have an integrated chain. The industry and the Government can no longer be allowed to work together to — pardon the crude term — rape one sector and allow other sectors to have a bonanza. There must be an integrated system that allows a livelihood for all the links in the chain.

2701. Therefore, Government should oversee what is going on. They do not have to do anything, but they should ensure that companies are encouraged to scale up and encourage integration across the total sector. Assistance should be given to companies that perform in that way and not given to those that do not.

2702. Moy Park chicken farmers have spent a raft of money — probably as much as Moy Park itself — to build new sheds and revamp old sheds. Why are they not receiving some assistance, as farmers are in the Twenty-six

Counties, where the industry is being supported in order to restructure?

2703. Support should also be given to the agri-industry, but only to those people who are investing for the future. I am not a great believer in throwing money at farms for things that have happened in the past. We are going forward, but how can we encourage young people to stay on the land? Unless they see a future in which money will come to them to look after the land, they will not stay on the farms. Northern Ireland must look forward rather than backwards. Today's Government are looking backwards with the payment of single farm payments. I would prefer to see the money being given to people who are investing in the future rather than giving it to people for something that happened in the past. That is history; it is over.

2704. **Mr McNarry:** Your presentation was refreshing and informative. At its core are the elements about which we need to hear. How do the literacy and numeracy skills of your local workers compare with foreign workers?

2705. Does Moy Park own any of the farms that produce its chickens?

2706. You mentioned fuel costs. Have you talked to the Government about competitive incentives or attractions that would assist you in getting your goods to market at a competitive rate? Seven million pounds a year is an extraordinary amount of money to spend on transport costs. If you talked to the Government, did you get any change out of them? I suspect not.

2707. **Mr Reid:** I was part of the UK delegation that spoke to Lord Rooker recently on IPPC. The Government are not interested and believe that industry must stand on its own two feet. The Government want cheap food, they want to keep inflation down and they want to maintain a certain position. That is my interpretation, not only of the UK Government but of the European Union. They saw what happened when Russia turned off the gas tap — the price of gas soared, and it has not come down.

2708. If terrorism ever infiltrated the food chain, and something was thought to be hidden



in a 40,000-tonne load of products from South America or the United States, there would be no food in the shops within three or four days. If Russia turned off central Europe's oil supply, we would have no fuel, and civil riots would break out in the UK and Europe within a week. When there is a fuel scare, you see people queuing up, and they do not like that.

2709. We are not self-sufficient in food production. The situation is becoming serious, and the trend will continue. The Government have no interest in supporting us. Many years ago, Northern Ireland had the feed price allowance, which worked well. Approximately half our shipping costs were reimbursed, but now costs have soared, and there is no help, nor hint of it, available. In fact, the Government are abolishing the latest processing marketing grant.

2710. With regard to your point on education, there is no difference. Some foreign workers are better educated, because they are the more ambitious people who have got off their backsides. They are similar to the Irish people who went across the world to establish themselves and make money, and then returned to Ireland. These people have got off their back ends and gone out into the world. Moy Park has foreign graduates working on the production line. The foreign workers will always be first to put up their hands if we want staff to work over-time. I should not call them "foreign workers" — workers from other EU member states.

2711. Moy Park has been running private education programmes. We have in-house teachers who work on a one-to-one or two-to-one ratio. We have two full-time teachers to help the Portuguese workers to integrate with the local community, whether it is with policing, housing or trying to find a bank that will take them on. Those teachers do nothing else but that. We do it for local workers as well, and it is a major challenge. Over 20% of foreign workers that we employ have become full-time residents, and they are on our books full time rather than being employed through agencies. That will be a growing trend, and it has helped the local economy around Dungannon, as Ms Gildernew and Lord Morrow will know.

2712. **Mr Weir:** First, with regard to fiscal incentives, you mentioned concerns about grants being cut, but you made no reference to the rate of corporation tax. What is your view on that?

2713. Secondly, you gave an example of the effect of red tape. Are there any further examples of where you feel that Government red tape ensures that Northern Ireland does not have a competitive advantage?

2714. **Mr Reid:** Welfare is another example. People do not like talking about the subject, but new proposals in Europe would bring stocking densities down to as low as 30 kilograms per square metre. Who will inspect breast fillet meat from Thailand, Brazil or the United States at the point of entry? Who will ensure that that meat has been produced under the same environmental standards as in Northern Ireland? We have to collect the dust from the roofs of chicken sheds, because it might kill — and I have seen no evidence of this — a little flower in a bog a mile away.

2715. Do members believe that those standards exist in Brazil? I can tell you that they do not, because I spend about four weeks a year in Brazil. It will cost £40 million in the UK to bring that one standard up to a new dream of bureaucrats to be better and holier than anyone else. Yet at the same time they allow the import of a product that will not be labelled, because a fillet is a fillet and a ready meal is a ready meal. They will not have been produced to x, y, or z environmental standards in Brazil or Thailand.

2716. If we were making enough money, corporation tax would be a major issue. Currently we are not, but we need to be competitive. When considering a reduction in the rate of corporation tax, we have to think of the outside investor and remember the American shareholder. The four of us still run the company, with no American management yet. However, I will be 64 years of age on my next birthday, so I assume that that may soon change.

2717. We must show our shareholders an advantage to investing in Northern Ireland. What is the advantage? We have been able to sell the good old Irish charm, green fields, and

this, that and the other, but sooner or later our time will run out. I am thinking of the young people about whom Ms Ritchie was speaking, who will come into the industry in 10 years' time. Will shareholders be happy to invest in Northern Ireland then? Unless the structures are in place today to prove to them that Northern Ireland is the place to invest, they will not do it. A reduction in the rate of corporation tax is one tool, but we must also be profitable.

2718. **Ms Gildernew:** I welcome the Chairman to his first meeting. My apologies for being late.

2719. It is good to see you again, Eric. I am acutely aware of the impact that Moy Park has had in Dungannon. I have been concerned about jobs further west. In meetings of this subgroup, I have consciously tried to tease out the implications for employment and the standard of living west of the Bann, particularly in Fermanagh, which is not as well serviced with jobs as Dungannon and other parts.

2720. Eric, you and I first met when we spoke about manufacturing rates. Do you consider the capping of rates to be a fiscal incentive? Should this subgroup recommend to the British Exchequer that that would make us more competitive, taking into account the high cost of fuel and all the other disadvantages?

*11.00 am*

2721. **Mr Reid:** There is no alternative but to support that. Almost £1 million comes straight off Moy Park's bottom line, and last year our net profit was zero. So you can see what a difference £1 million makes.

2722. Our turnover is more than £700 million. We must get a return, and that is only one element of success. If industry does not secure returns, it will walk out of this Province, and that has already started to happen. We are considering a 10-year programme. Anyone who invests must consider the long term. Capital programmes are not written for 12 months or two or three years. There must be a long-term commitment to invest in Northern Ireland, either by a family, a shareholder or the public. Would a car industry invest in Fermanagh? Why would a big industrial food factory invest in

Fermanagh when the raw material has to be brought in and the finished product has to be sent out? It is the same story.

2723. Small plants may survive in Northern Ireland to supply the butchers and the smaller shops and outlets if they are nimble, fit, have good education and good R&D, and do not have excess costs. However, small plants will still have higher energy and raw material costs. They need support, and a capping in rates would be a good help. Sometimes factories need a lot of space to cope with all the regulations, and it is unfair to judge companies on the size of a factory. Rates should be levied on those who can afford to pay, and it should be the same for industry. A company may not be making much money, but what is the alternative if it moves out of Fermanagh?

2724. We must find some other mechanism. A company that is not making much money would be completely blown out if it were presented with a rates bill for £100,000 or £200,000. It is essential for rates to be capped at today's level — either 25% or 40% — and they should be competitive with industry across the border. I hope that that also answers Mr Weir's question.

2725. **Dr Birnie:** Thank you for coming. You are very strong on the need to retain grants and selective financial assistance (SFA). Can I put to you the often-made objection that SFA rates in Northern Ireland are much higher than in most other areas in western Europe, which has led to a high degree of cushioning? I have a related question, which is similar to one that Peter Weir asked earlier. If you had the choice between keeping SFA — and there is some debate about whether we can keep it under European rules — or getting the headline corporation tax rate down, which would you go for?

2726. **Mr Reid:** We have to invest for the future. We need capital support, and any assistance we can get to invest in new capital to get ourselves into the global market, become more competitive and drive out inefficiency.

2727. Tyson Foods located in Dungannon, and it, along with the John Thompson and Sons Ltd feed mill, are supported by the Government. However, we had to come up with the ideas to

bring in the technology. John Thompson and Sons Ltd is ahead of the field — its programme was started six or seven years ago. Companies from China, Australia, South America and from all round the world have come to see the efficiencies of the Thompson feed mill plant, including Tyson Foods.

2728. **Dr McDonnell:** I have a few scattered questions, which are more supplementary than mainstream. Mr Reid, you mentioned that you have a USA shareholding. How much of your company is US owned?

2729. **Mr Reid:** One hundred per cent.

2730. **Dr McDonnell:** You referred to the transporting of chicken. It may be difficult to answer this question in the light of your global perspective, but how many of your chickens are sourced locally?

2731. **Mr Reid:** For our Dungannon plant, which is the only primary plant we have in Northern Ireland, 100% of our chickens are grown by 350 Northern Ireland farmers, and that is from grandparents, parents and broilers. No other company in Europe has a primary processing operation and three generations of stock. In answer to Dr Birnie's point, it is that which makes us different.

2732. **Dr McDonnell:** When you referred to transport costs, what are you bringing in?

2733. **Mr Reid:** I was referring to raw materials. We use 7,000 tonnes of feed every week to feed those chickens, which is brought into and manufactured by the John Thompson and Sons Ltd feed mill. One company distributes that feed to all the farms.

2734. **Dr McDonnell:** Are you connected with Thompsons?

2735. **Mr Reid:** No. We have a partnership with Thompsons, although it is not a financial partnership. We take over 60% of its volume. There used to be five feed companies, but now there is one. James Clow and Co Ltd of Belfast no longer exists because of what we have done; Dalgety Feed Ltd of Belfast and Scott's Feeds Ltd of Omagh no longer exist. Wilson's Feeds Ltd of Belfast no longer exists, although it still

has a plant outside Dungannon. That is the effect of rationalisation.

2736. The Thompson feed mill now processes more feed than all those firms put together. It has been a major success. It has lower costs as well as the added advantage of having biosecure food or — in simple language — salmonella-free food. That firm leads the world. In the past week or two, the EU has brought in legislation to drive down salmonella levels across Europe. In Portugal, salmonella levels are as high as 60%, but Northern Ireland leads the world in low levels of salmonella. That was achieved by a partnership between Thompsons and Moy Park. We do not buy feed at arm's length; we have an open-book system, where we buy the raw materials and Thompsons are paid a margin for processing in the largest mill in the UK. Moy Park gets the advantage of scale; Thompsons gets the advantage of 52 weeks' volume from us.

2737. **Dr McDonnell:** Where does your company buy feed?

2738. **Mr Reid:** From Thompsons.

2739. **Dr McDonnell:** From where does it originate?

2740. **Mr Reid:** Brazil produces the soya bean. The wheat comes mainly from England, although it can come from eastern or southern Europe. It depends on where it is most economical to buy.

2741. **Dr McDonnell:** Do you then distribute the feed to farmers?

2742. **Mr Reid:** Yes. In the Moy Park operation, farmers' incomes are not generated by the marketplace, unlike what happens with beef, sheep, pigs or any other commodity. Moy Park carries the marketplace, and farmers are paid on the efficiency with which they convert feed into eggs or saleable meat; that goes back to Dr Birnie's question. The more eggs that are produced with chicks in them, or the more meat that is produced using the least amount of feed, the more income that farmers will generate.

2743. **Dr McDonnell:** You say that energy is 20% more expensive in Northern Ireland than in Great Britain. What energy are you referring to?

2744. **Mr Reid:** I am referring to electricity, but propane gas is much worse. Our operations in England use natural gas, which is only reaching Northern Ireland now. The gap in price is much wider with electricity. This year in England — just so that we know that there are some good things about Northern Ireland — prices have moved up by about 40% to 60%. In Northern Ireland, we are not too badly off with a price rise of approximately 20%. However, there is still a 20% gap between energy prices in Northern Ireland and England, so I expect prices to continue to rise in Northern Ireland.

2745. **Dr McDonnell:** I admire you, and I am enthused by your passion — that is the only word that I can use to describe this morning's presentation.

2746. How do we pull all this together? How do we bring industry and farming together in a workable way? From where does the initiative come? From what you say, Government are not capable of bringing these elements together. Government are simply capable of sitting in the background. We have found this situation in many industries. From sitting around the table, I know that many members would be glad to put in their tuppence worth and support you, albeit it would not be front-end support. I understand that the Ulster Farmers' Union is able to support you, but between that union, the industry and whatever, how do we pull this together?

2747. Despite the fact that there are not many farmers in my constituency of South Belfast, I agree with all that you have said, Mr Reid. The agriculture industry must be the bedrock of the economy in Northern Ireland. That sector may not be high-flying or high-tech, but it must be the bedrock of the economy. Where do we start? Answer in 30 seconds, please.

2748. **Mr Reid:** You mentioned small industries in Belfast, and the agricultural sectors are no different. In order to survive, they must either be extremely nimble or be able to service the retail trade or whoever their customers are. Those customers will go anywhere in the world to source their products; that is the strategy of today's leading retailers.

2749. There is no way that I would say to the subgroup today: "Here is the blueprint." It is not as simple as that. I am a great believer in "small boxes", which is what we call the profit centres in each of the agricultural industry sectors. We in the poultry sector can put forward proposals to the subgroup. Similarly, the beef industry, working together as an integrated business, can put forward proposals, as is the case across the border. The milk sector can do likewise. There will be pain and sorrow, but there will also be success for the winners. This subgroup is part of Northern Ireland plc; it can grease the wheels for us, and it must be part of any decision-making. Small boxes must work together to support those who members, and the sector, believe will be the winners. Some people in the industry will not want to face the heat of the fire and will gladly get out if they can join an out-goers' scheme. Such schemes may be partly funded by the industry, as will be the case in the South. The key is to have small boxes working together.

2750. I am not sure whether that was 32 seconds or longer.

2751. **Mr Neeson:** I am astounded by the impact that poultry markets in countries such as Brazil have on the UK and European poultry market. I was well aware of the problem with the red meat sector, but not with poultry.

2752. First, should imports from countries such as Thailand and Brazil be subject to Government controls? Secondly, to what extent is the so-called supermarket revolution in the UK — which has now reached Northern Ireland — driving the poultry market?

2753. **Mr Reid:** The first matter is quite simply down to the World Trade Organization (WTO). None of us can change that; the WTO wants to encourage Third World development, and we will have to play our part in that. However, I want honest labelling. I do not want the consumer to be fooled, which is what is happening at the moment. People from outside our industry are becoming involved and are making big bucks out of fooling the consumer. That is wrong, so we must have honest labelling.



2754. **Mr Neeson:** Should the supermarkets tackle that issue?

2755. **Mr Reid:** No, because supermarkets are out to compete with other supermarkets, so they will sell products that will make them competitive. Supermarkets will not tackle that issue. Many people in the industry — including our friends from the Ulster Farmers' Union, who are sitting behind me — have tried to raise this issue with the Government, and at a European level, but it has been pooh-poohed on every occasion. The Governments of Europe want cheap food, so they will support the import of goods from China or Brazil or wherever to keep the voters happy. The industry must find tools or mechanisms to ensure that we can compete globally, but with honest labelling. All investment should be for the future in order to ensure that we can face that forthcoming challenge.

2756. **Lord Morrow:** Mr Reid, you are very welcome. I have heard some of your remarks before, when my colleague Arlene Foster and I met you on a previous occasion. I know that other political parties have also met you to discuss these issues.

2757. I would like you to clarify a few points. I know that the debate on the freshness of poultry has exercised you greatly, not just today, but for some considerable time. You may already have answered some of my questions, but I may have missed the answer, so I apologise if you have to repeat yourself.

2758. First, what is your definition of “freshness”? Does it mean poultry that has been produced today to be on the shelf tomorrow and consumed on that day or the next?

2759. Secondly, Moy Park is the backbone of the local economy in south Tyrone. There is no dispute about that; it is a valued and valuable asset in south Tyrone. You said that Moy Park employs around 4,500 people in Northern Ireland, and 9,000 people globally. How many of those 4,500 employees come from the indigenous population?

2760. Thirdly, I would like you to confirm or deny a rumour that I heard some time ago. The

rumour was that Moy Park had said that it could produce chickens much more cheaply in France than it could in Northern Ireland. I would like you to address that important issue.

*11.15 am*

2761. You said that John Thompson & Sons Ltd's feed mill is state of the art and that, because of efficiency and effectiveness at its plant, other plants have ceased to exist. Is the fact that Thompson & Sons Ltd is now the main — and probably the only — player a good thing, given that we wish to build a thriving economy?

2762. You also spoke about young people coming to work for Moy Park in 10 years' time. That was encouraging to hear, because it tells me that you see a future here and that you will be around for at least 10 or 15 years.

2763. **Mr Reid:** The company might be.

2764. **Lord Morrow:** You said that you were 64, but you do not look it.

2765. It is fair to say that your company is profitable. It is not in financial difficulty, so that is good news for Northern Ireland.

2766. I wish to return to the argument about freshness. You said that all 25 EU member states are fighting on that issue. Are they fighting the same corner, however, because if, as I think you said, Brazil and Portugal do not allow imports —

2767. **Mr Reid:** Brazil, Thailand and the United States do not allow imports. Portugal is in the same boat as the rest of us.

2768. **The Chairman (Mr A Maginness):** Lord Morrow, could we leave it there?

2769. **Lord Morrow:** I wish to ask a final question, Mr Chairman. If the whole of Europe takes the same standpoint, why are we not achieving a different result?

2770. **Mr Reid:** At present, we think that the definition of “freshness” should be up to 15 days from the date of slaughter. A European delegation from the poultry sector went to Europe to fight for that, but our case was thrown out. As a result, the European Commission assumed responsibility for the product being

safe for up to 14 days from date of slaughter. The Commission beat us by being very clever.

2771. Member states' Governments' veterinary divisions' interpretation of what constitutes "fresh" is as follows: if, when an animal is brought to slaughter, it is fit for slaughter, it is considered to be fresh. After that, it is irrelevant whether the processor freezes it, seals it in atmospheric packaging or sells it as chilled. Europe's definition — that includes the UK — of "freshness" is "fit for slaughter". What the processor and the consumer do with the poultry afterwards is irrelevant.

2772. That issue is still being fought in every member state. The Commission has invited us back, so we shall meet with it in the next couple of months. That meeting is further to those we are holding with the Food Standards Agency (FSA) and the Department for Environment, Food and Rural Affairs (DEFRA). We want "date of slaughter" put on packaging now. We know that it will be a challenge to convince the consumer to buy products marked "date of slaughter". If the poultry is 10 days old, will the consumer go to the chill cabinet, look at the dates and — a bit like when buying milk in a supermarket — opt for the fresh poultry, leaving the older poultry on the shelf? Therefore a major education programme must be launched if we are to use "date of slaughter" on packaging.

2773. I hope that that answers your question. That is the thinking of the poultry industry across Europe at present. However, each member state must ratify any change, and then together we shall go to Brussels to fight our case.

2774. Ten days or 14 days is no longer acceptable, because that puts responsibility on to the Commission. That could create a serious financial position because a processor could, through being shoddy, put dangerous products on the shelf. That is a clever move.

2775. Some 1,450 people work in our Dungannon plant, of whom 700, or about 50%, are foreign workers. Of our Craigavon workforce of 1,300, some 50% are foreign workers. Remember that seven or eight years ago Dungannon's unemployment was running at

about 15%. I do not know what the figure is today, but I imagine that it is less than 4% or 5%.

2776. **Lord Morrow:** It is about 2%.

2777. **Mr Reid:** We could not survive without the foreign workers; they have been a major success and have helped the economies of both those towns.

2778. **Lord Morrow:** Can Eric comment on chicken production in France?

2779. **Mr Reid:** We have no primary agri-production in France. The French operations concern imported products, mainly of meat from here in Ireland or Brazil. We make no money from that, because Brussels removed the salted meat subsidy; however, Brussels lost a subsequent legal case, so the subsidy will be restored and we will, we hope, start to make money from that again.

2780. However, our operations in France depend totally on tariffs. We fought Brazil and lost the battle. Therefore, its meat will be coming back into Europe again with a 10% tariff instead of a 90% tariff, which is unbelievable. However, that is the real world and there is nothing that we can do to stop it. We in Europe are fighting to make sure that there is a limit on the amount of meat that is imported. In other words, we want a quota to be imposed on the amount of meat that is imported into Europe.

2781. **The Chairman (Mr A Maginness):** How much does your company invest in research and development?

2782. **Mr Reid:** I do not have the figure in my head, but I imagine that we invest about £2 million to £3 million a year at least. Our centre of excellence in Craigavon does nothing but research and development. More than 70 people work there, all of whom are graduates, not people who leave school at 15 or 16. We have a similar centre in England. We employ people with every level of education. I talked about the academy earlier.

2783. **The Chairman (Mr A Maginness):** Thank you, Mr Reid, for a very interesting, stimulating and — if I may borrow Dr McDonnell's word

— passionate presentation. You have provoked a great deal of interest around the table.

2784. **Mr Reid:** Thank you for listening to me. If I can be of help to any party, please let me know.

2785. **The Chairman (Mr A Maginness):** I welcome Mr Clarke Black, chief executive of the Ulster Farmers' Union; and Mr Kenneth Sharkey, president of the Ulster Farmers' Union. Thank you for your attendance, gentlemen, and for your written submission. We have 45 minutes. We ask you to make a short presentation of about 10 minutes; then members will ask you questions.

2786. **Mr Clarke Black (Ulster Farmers' Union):** Thank you, Mr Chairman, for the opportunity to present evidence from an agricultural perspective to the subgroup. I wish to introduce Kenneth Sharkey, who is president of the Ulster Farmers' Union (UFU). I am its chief executive.

2787. I understand that members have copies of our presentation. I shall make some comments by way of introduction and to set the UFU's thoughts in context before I deal with the three specific issues in the subgroup's terms of reference.

2788. The importance of the agriculture and agrifood sector to the Northern Ireland economy has been seriously underestimated for many years, yet, by most of the key measures, this is an industry that, in spite of all the difficulties that it has faced, has survived in remarkable shape. The output from direct agriculture is more than £1 billion, and from the agrifood sector it is £2.3 billion. Although those are significant figures in their own right, the value-added element is more important. Agriculture and agrifood is one of the primary industries. Starting from the basics of life, there is a product. That product has a value, which, in turn, creates wealth.

2789. I know that many farmers would say that farming is one of the quickest and surest ways to destroy wealth. That may be true for some individuals, but the industry's contribution to the overall economy should not be devalued.

2790. Employment is another way by which to measure the importance of the agriculture

sector. It is the largest private-sector employer and the largest manufacturing employer. It employs 80,000 people. Some jobs are part-time, but when the figures are examined, there are between 57,000 and 60,000 full-time equivalents. Direct farming accounts for 4.1% of the workforce, the processing sector for 2.53%, the supply sector for 0.53%, and the service sector for between 0.25% and 0.5%. Therefore, more than 7.5% of total employment in Northern Ireland is directly or indirectly related to the agriculture and agrifood sector. A useful comparator is the unemployed total, which is 36,000. That gives an idea of the size of the industry.

2791. I shall attempt to debunk the myth that the agriculture and the agrifood sector is a sunset industry — members may have already heard something similar from the Moy Park delegation. It is difficult to identify from where that label came. I suspect that it came from a comparison that was made between the industry and the sunrise industries, which were the high-tech industries of the late 1980s, the 1990s and the early part of this century. That label has stuck, and there is absolutely no doubt that Governments of developed and — as they see it — sophisticated economies continue to ignore the contribution that the agriculture sector makes to the overall economy. The UK Government in particular continues to ignore the agriculture sector's contribution. Agriculture is the one industry in which Northern Ireland has a natural competitive advantage. We do not have that advantage when it comes to, for example, producing television sets or some of the other goods that inward investment companies manufacture.

2792. The security of our food supply has been brought sharply into focus since we were reminded last autumn of the extent of the potential difficulties of relying on an energy supply from parts of the world over which we had little influence and certainly no control.

2793. The industry has had to be flexible and innovative, not only to survive, but to expand in difficult trading conditions. There are sectors in the industry — including Moy Park Ltd, from

which members heard earlier — that have dealt with the challenges and have flourished in spite of the difficulties. It is all about being flexible and innovative.

2794. Farmers own and manage more than 76% of the total land area in Northern Ireland, and the management of the natural environment would not be possible without an industry that is alive and vital.

2795. We believe that the proactive use of land offers the most potential for the future. Whether it will be growing oil seeds for biofuel, growing wood for heat, or using land as a filter for, say, the bioremediation of society's waste, we think that those proactive uses of land can be developed for the future.

2796. Then there is the industry's role as a core element in the sustainability of rural communities. The industry is not only the key to the economic sustainability of those communities; it also provides the social cohesion that we believe has been a vital, sustaining and stabilising factor in Northern Ireland society over the past 30 or more years.

2797. Far from being a sunset industry, the agriculture and food industry has the ability to contribute to Northern Ireland's economy in a variety of integrated ways that, we believe, no other single industry can.

*11.30 am*

2798. I have tried to show you how important we feel the agriculture and food industry is to the economy. We believe that the overarching impediment to the development of the sector flows directly from the erroneous viewpoint that farming and food are a sunset industry. To be more specific, we have looked at the major impediments in three main areas. The first one is the lack of profitability across the sector. Profits have not been sufficient to enable the industry to invest and restructure. As a result, we have a primary sector in which the average age of farmers is 56 or 57 years. We have a processing sector that is fragmented in many cases and suffering from acute underinvestment.

2799. I accept that some of those problems have been of our own making. Nevertheless, the stark

imbalances in the food supply chain have been and continue to be one of the main contributors to the lack of profitability and, therefore, the lack of investment across the sector. For example, I was struck by two headlines that appeared side by side in my local newspaper in Coleraine a couple of months ago. One concerned a story about one of the four big retailers expanding, opening a new store and creating 150 jobs. The other concerned a story about the local chicken-processing factory closing down with the loss of 320 jobs. Those are the type of stark imbalances that we have in the supply chain.

2800. The sunset mentality has been more evident within Government. The lack of vision across Government Departments has resulted in very limited and ineffective support for the industry. Furthermore, for an industry which is so influenced by politics in Europe — it is largely controlled by Europe — the additional layer of representational bureaucracy that we have through London and DEFRA has meant that the distinctive needs of the Northern Ireland industry are often represented less effectively. There are broader UK agendas, and the outcome of the recent negotiations on the level of EU rural development funding is just one example of that.

2801. Finally, food production is one of the most heavily regulated industries, and I am thinking of impediments. For example, farmers are faced with having to register for an exemption for a licence to permit them to collect and burn hedge trimmings. When we have got to that level of overzealous interpretation and imposition of regulations by more than one Department, innovation is severely stifled, and the potential for developing any form of competitive advantage is lost.

2802. The subgroup asked us to comment on fiscal incentives aimed at promoting investment. Our focus is naturally on indigenous investment. There is no reason why properly targeted, strategic, inward investment in processing facilities, which would utilise primary farm production, could not make a significant contribution to the wider Northern Ireland economy.



2803. One good example is Diageo in Glengormley, where local cream is used in the production of Baileys liqueur, which is sold worldwide. Using local ingredients in industrial production is something that could be done to promote indigenous investment.

2804. It is perhaps a little early in the morning to speak about alcohol.

2805. **Ms Gildernew:** Not for David, by the looks of things.

2806. **Mr McNarry:** Are potatoes not used to make poteen? *[Laughter.]*

2807. **Mr Black:** The subgroup should certainly consider the impact that targeted investment support for the agribusiness sector could deliver for the wider Northern Ireland economy.

2808. Restructuring the processing sector would deliver undoubted benefits in cost savings, marketing and increased competitiveness. Indeed, our nearest neighbours have been convinced of the benefits of such an approach, with the recent announcement of significant funding support for that purpose.

2809. Investment in restructuring in the primary sector, particularly targeted at enabling farmers at the top end of the age scale to exit the industry, would also provide opportunities for the creation of economies of scale, along with much higher levels of innovation and flexibility and a much-improved ability to compete globally.

2810. Previous consideration of that approach has always fallen at the hurdles of finding money and equitable distribution issues. However, there are parallels in other parts of society where a peace dividend, for want of a better term, has been used to restructure and adapt to changed circumstances. That should be considered for the agriculture industry. Again, our neighbours in the Republic of Ireland have been reasonably successful in adopting that approach.

2811. Focusing support on the agriculture and agrifood sector would undoubtedly significantly contribute to economic regeneration, for all the reasons that we have outlined. However, the

subgroup also correctly asked us to visualise how that would be delivered. First, there needs to be a real sea change in the strategic vision for the food production sector, backed by targeted support of the type that I have already mentioned for the food processing and primary production sectors. That is vital to produce a sea change in attitude.

2812. What else do we actually mean by “strategic” and “targeted”? The Food Strategy Implementation Partnership (FSIP) was tasked with looking into the future to envisage what type of industry we could expect to have in 2020, for example. In doing that, we considered the difficulties of dealing in commodity markets. The disadvantage of being a small market is never really being able to compete in real terms on a global scale. However, that disadvantage is very well offset by the real advantage of being very nimble and responsive to, and capable of, change. Our future will depend on our capacity to change.

2813. The FSIP’s foresight work identified several areas where the Northern Ireland agrifood sector could realistically hope to achieve excellence in global terms. It has also concluded that, in order to achieve global excellence, more resources need to be committed towards research and development.

2814. To illustrate our examples, we have compared Northern Ireland to Finland. Finland was chosen as a comparator primarily because of its size and scale, and because, despite its geographic peripherality, it is the second-best performing economy in the EU. The most obvious differentiator between Finland and Northern Ireland is the level of R&D spend from both Government and industry. Northern Ireland’s R&D spend is approximately one third of that of Finland.

2815. Being located on an island — albeit an island with two different political regimes — has significant potential benefits for animal and plant health, as well as the related areas of animal and plant breeding and genetics.

2816. The Ulster Farmers’ Union believes that there is a great deal of potential for Northern Ireland to become a world-class centre of

excellence for animal and plant breeding and genetics.

2817. The Ulster Farmers' Union believes that, as a small region, Northern Ireland is uniquely positioned to develop solutions for big issues such as renewable energy and the management of waste. Some work is being done on that, but the key to exploiting that potential would be to take a much bolder approach to testing and developing alternative technologies, marketing them aggressively and dealing with the associated risks.

2818. Given the subgroup's time constraints, it is difficult to cover all the relevant issues in detail. However, the Ulster Farmers' Union believes passionately that it has presented the subgroup with the basis of a blueprint on which agriculture and the agrifood industry could build their already significant contributions to the Northern Ireland economy in a way that would be sustainable and advantageous to those in the industry and to the wider Northern Ireland economy.

2819. We are happy to elaborate on the issues that are raised either during questions or at a later date. It is up to the subgroup.

2820. **The Chairman (Mr A Maginness):** Thank you very much, Mr Black. I assume that Mr Sharkey will want to take part in the question-and-answer session.

2821. **Mr Kenneth Sharkey (Ulster Farmers' Union):** Yes.

2822. **Mr McNarry:** For some years now, I have noticed changes in my constituency, which is the beautiful area of Strangford. Those changes include reduced circulation of money because farmers are not spending as much, and there have been job losses because of that. I have also noticed an increase in the number of people who, when I first got to know them, worked as farmers and who now need to take second jobs. Of course, they still have to work on their farms, and the hours that they put in seem to be horrendous.

2823. Much has been made of farmers diversifying their businesses. In my constituency, diversification means keeping a family afloat

and bringing in a wage to supplement the money made by the farm. That is not diversification in the true sense, and it could be argued that diversification is talked up a great deal. Have enough studies been done on diversification? Is it a good thing or a bad thing? Would true diversification make farmers redundant by taking them out of farming?

2824. Are we winning or losing the battle to sustain the interest of young people in farming? Are young people from non-farming families coming into farming?

2825. Finally, we are seeing — I will not be political about this; I will forget the adjectives — rural school closures, particularly primary schools. How does that affect the farming community? Do those closures present the farming community with difficulties?

2826. **Mr Sharkey:** I will answer the questions on young people and rural schools; Clarke will take the questions on diversification.

2827. I feel strongly that young people need to be attracted to the farming industry to lead it and drive it forward. Those young people will work in our industry when they receive rewards that are equal to those of the other jobs or types of work that they can do. That attraction has to exist. Young people will expect an average week's wage if they are to stay and work on the farm. As Mr Black says, the lack of profitability has had a crippling effect on our industry.

*11.45 am*

2828. When young people are not building houses and living in the countryside, pupil numbers at rural schools go down, and that causes problems. The key point is to ask how we can get back to a profitable farming industry. If we did that, diversification would be less important. You are right to ask whether diversification is good or bad. In some cases it is a lifeline to have someone in the farming family bringing in some income from another project to try to sustain the family business. Profitability — and I think that Moy Park Ltd would tell you the same thing — comes down to the distribution of the food chain. I do not know how we can deal with that difficulty, but

the lack of profitability is the real problem that prevents our industry from growing and moving forward.

2829. **Mr Black:** I have nothing much to add, other than to say that Mr McNarry's observations about money not being recycled through the community are true. I referred earlier to how the agriculture sector is completely integrated into the economy, and the money circulates round the economy. That happens across Northern Ireland.

2830. Diversification comes down to the lack of profitability. It is about people trying to remain in rural communities in order to keep them alive and working. Those people see a way to do that other than their traditional route.

2831. **Mr Neeson:** Over the years, Europe has had a major impact on the agriculture industry. The foot-and-mouth-disease crisis happened during our short period of devolution, so, bearing that in mind, were there more benefits to the industry then?

2832. The Enterprise, Trade and Investment Committee carried out a major inquiry on energy. The Secretary of State recently announced that £60 million will be set aside for the development of renewables. What will the Ulster Farmers' Union do to encourage the farming community to become involved in the area of renewables? Will it encourage the farming community along the lines of John Gilliland's work on the promotion of renewable energy?

2833. **Mr Sharkey:** I will deal with the first question. There is no doubt that the agriculture sector benefited from a local Administration. Look at our counterparts in Wales and Scotland: the Administrations there have been hugely beneficial to the local agriculture sectors. Look at our friends in the South of Ireland: they have a direct input into local government. That is very meaningful. We thoroughly appreciated the work that the previous Executive did on agriculture; all the political parties can support agriculture because it is an industry that is found across the Six Counties. In every townland, someone works in the agriculture industry. We do not doubt that a local Administration would

be of significant value to us, and we would appreciate that.

2834. **Mr Black:** We have already highlighted the raft of issues that are connected to renewable energy as a potential solution to many of our problems. Agriculture can deliver that solution. You mentioned John Gilliland, our former president, and the work that he is doing in a particular area. He works on the production of wood for heat, but he also works on dealing with waste. He has done some remarkable work on how to use sewage sludge on crops for harvesting. Instead of using fossil fuels as an energy source and having to landfill our waste, you suddenly start looking for the potential for an integrated approach that will deal with energy. That sort of thing should be happening.

2835. You also mentioned the Secretary of State's announcement on money being set aside for the development of renewables. We welcome it, but it was largely conceptual and is now stuck between various Departments. The money has not yet been delivered. That goes back to what I said about the need for us to be bolder about taking risks, developing them and then going out and servicing them.

2836. An Ulster Farmers' Union member was in the United States in the past couple of months, and he talked to representatives from large municipal authorities about how they were dealing with their waste. They said that it seemed that Northern Ireland was 10 years ahead of the United States. It is a sin that Northern Ireland is in such a positive situation but is not able to benefit because we are struggling with bureaucracy and everything that goes with it. It certainly does not help our economy.

2837. **Mr Sharkey:** The Ulster Farmers' Union is passionate about renewable energy, and farmers are looking forward to the opportunity to grow energy crops, and so forth. However, we do not want to be in the same position in which we have found ourselves with food production over the years. If farmers grow energy crops, we must ensure that we add value at farm level and are not merely producing a commodity on which multinationals will get rich quick. We would like to see some mechanism

whereby we add value at farm level, and farmers get a bigger share of the energy market.

2838. **Ms Gildernew:** That is one of the points that I wanted to make. We have seen how heavily regulated the agriculture industry has been and how the influence of Europe is not always good. When that is combined with the Department for Environment, Food and Rural Affairs's lack of common sense and the different level of importance of the agriculture economy, in GDP terms, in the Twenty-six Counties as compared to England, it hugely disadvantages our farmers. I agree with David McNarry: when farmers are doing well, everyone is doing well. The farming community is important to the rural economy, which is why I suggested that we needed witnesses at the subgroup to give us the farming or rural perspective. Foreign direct investment does not impinge particularly on what we do in the rural communities or on the sustainability of the rural economy.

2839. I see R&D and alternative energy as ways in which we could enable farming to move up a gear in the value that is added. Those areas might benefit from a peace dividend: helping farmers to produce the right crop or the right product at the right price. Farming needs to be profitable, and whatever we come up with on this subgroup needs to be worthwhile.

2840. How does the price of milk at the farm gate and the price that we pay in the supermarket impact on rural wealth and on the sustainability of the economy? What are your views on modulation, and how will further modulation affect the rural community?

2841. If Fermanagh, Tyrone, south Derry and rural parts of the island do not have an agri-economy, they will have no economy.

2842. In his presentation last week, John Simpson mentioned the work of the Ulster Farmers' Union when the beef ban was lifted and the fact that its representatives were in Brussels promoting red meat on the day that the ban was lifted. Is the quality of Irish beef our last major market advantage?

2843. You both used the word "passionate". We have no doubt that you are equally as passionate as Eric Reid; you do not have to convince us.

2844. **Mr Sharkey:** Our members are totally opposed to modulation. We see it as a mechanism for taking money from one sector and giving it to another, or for reducing a single farm payment to put it into a pot of money and creating a great deal of administration to think of ways of getting that money back to rural areas. Rural development is important, but, unfortunately, the UK has received a poor share of rural development money from Europe. It is not the Northern Ireland farmers' fault.

2845. It is wrong to take some of our single farm payments to create more rural development money, because that is not what was meant to happen. Other member states can have a good pool of rural development money as well as a single farm payment. That is our standpoint. The Ulster Farmers' Union is opposed to additional modulation to fund rural development, not because we are opposed to rural development, but because we believe that extra money should go into the pot.

2846. We were pleased to be in Europe when the beef ban was lifted. The ban had been a millstone around our necks. We are glad to have freedom, but we knew that things would not change overnight. Some product goes to Europe, and we are glad of that. There is a good relationship between the processing sector and UK supermarkets. At times, we question whether there is a real desire to bypass UK supermarkets and sell meat to Europe. Unfortunately, we are considering the export of live animals from Northern Ireland to member states, because UK supermarkets are not getting the message that either the price of meat must rise or we must receive a greater share. The current situation is unsustainable: we cannot continue to produce red meat and receive such meagre returns from UK multiples. Either we increase prices or we rear the raw material in Ireland and export it to Italy or Spain where the meat will fetch a higher price.

2847. **Ms Gildernew:** That does not add value to the product here.



2848. **Mr Sharkey:** We are opposed to it; it is the last resort.

2849. **Mr Black:** It all comes back to profitability.

2850. Michelle asked about milk prices. At our last auction, which sells milk for three-month periods, the price was down by between 11% and 12% from this time last year, which leads to a drop in dairy farmers' income. They face increased energy costs from contracting for silage, and they are also faced with a bill to comply with the Nitrates Directive and the Water Framework Directive. That will cost the industry between £150 million and £200 million. You cannot squeeze both ends without consequences.

2851. The total amount of single farm support from Brussels is approximately £225 million, compared to a total Government spend in Northern Ireland of just under £9 billion, so about 3% of support goes to agriculture, and that helps 7% to 8% of the population. Northern Ireland figures are similar to those across Europe. It is money well spent. The Ulster Farmers' Union is passionately opposed to modulation, because it is proposed that part of the £225 million be siphoned off into other schemes.

*12.00 noon*

2852. However, the total income from farming last year in Northern Ireland was £175 million. That indicates the level of profitability in the industry. That is why the investment and innovation is not coming through. That is the crucial impediment that must be addressed.

2853. Did I cover everything?

2854. **Ms Gildernew:** I wanted to ask about the possibility of a peace dividend for research and development on renewable energy.

2855. **Mr Black:** That is vital. The Ulster Farmers' Union thought that the money announced by the Secretary of State would kick-start that. We are concerned that the money has not yet filtered out onto the ground, because there is a pent-up desire to get on and do things, but the system seems to stifle that.

2856. **Ms Ritchie:** Gentlemen, you are most welcome.

2857. You talked about the continuum that is required in the farming industry. Until the last couple of years, there had been considerable discussion about a farm retirement scheme, and you probably referred to that as part of restructuring. What recent discussions have taken place with the Government about such a scheme, and what was the outcome? Perhaps I can assume that the Government are not too keen on the idea. What is impeding the Government's introduction of such a scheme?

2858. What work on animal and plant health must both Governments do on a North/South basis in order to facilitate further study on animal and plant health in the research and development institutes? What resources must be invested to address that on an all-island basis?

2859. **Mr Black:** There have been no recent discussions on any form of retirement scheme or exit strategy for people in the farming industry. The industry has always needed some form of restructuring, and if there were sufficient profitability in the industry, it would happen naturally. Given the lack of profitability, it is much more acceptable for those people to stay in the industry and survive for another 10 or 15 years, or for whatever period of time they have left on this fair land. That stifles the change process.

2860. There are parallels in the peace dividend; we have seen how other parts of society have been restructured, and perhaps similar principles could be used in farming. Should that be the case, and if we take the view that restructuring is a core and integral part of progressing the farming industry, it would be beneficial.

2861. **Ms Ritchie:** I have a short supplementary question. Should that not be part of the whole farming industry rather than part of a peace dividend?

2862. **Mr Black:** I would like to see that happen. However, when restructuring has been mentioned, we have always run up against the problem of having no means of achieving it, and the Department's response has always been

that it will happen anyway. People will retire at some stage, so why should taxpayers' money be used to restructure an industry that will be restructured over time. It is almost as though a constant weight is bearing down on an industry that is not ready to take up some of the new things that are happening.

2863. I am not really prepared to discuss the political difficulties that surround animal and plant health. However, to be pragmatic, this island has one of the best protection systems — it is surrounded by x miles of water. That allows tighter control over disease, which means that much better animal and plant health regimes could be established. As a result, quality food and quality livestock and plants could be sold throughout the world. Many countries would be keen to do that, but we really need to make it better than it is now.

2864. **The Chairman (Mr A Maginness):** We are running behind time. I would like the questions to be briefer and more to the point, and I remind members of our terms of reference: the major impediments to the development of the economy, fiscal incentives and the economic package or peace dividend.

2865. **Dr McDonnell:** Instead of one heavy question, I have a couple of small supplementaries or probing questions. The first question is similar to the one that I asked Eric Reid. Where does the responsibility lie? We have mentioned retirement schemes and energy from crops. The bio-diesel issue is a runner, but I need to be convinced about the effectiveness of a retirement scheme. Where does the initiative lie? Who starts these schemes, and who decides to make them work? What are the obstacles to either of those two schemes working?

2866. Is the milk industry dead or dying? I have seen dozens of people getting out of the dairy industry in the past few years, and some of them had big businesses. If prices have dropped 12% against costs rising by 10% or 12%, is that not the death knell?

2867. Research and development may fall in with the energy issue, but what are your views on the R&D spend? How is it that Finland has three times the R&D spend that Northern

Ireland has? What do we need to do, and who is holding it up or blocking it?

2868. **Mr Black:** I will deal with the question about who takes the initiative. The figures for R&D spend are difficult to come by because they are spread over different Departments and different pots; I suspect that there may be a reason for that, but we should not go there. The industry spends a fair amount. Mr Reid has already told the subgroup that he spent £2 million to £3 million.

2869. The Ulster Farmers' Union believes that the total spend in R&D in the agriculture sector is somewhere between £15 million and £18 million, and some of that is from Government, some comes from industry and some comes from farmers. The spend in Finland is around £45 million, and that is where the comparators come from. Finland has been going down that route for eight or 10 years and has really moved it on.

2870. If the Government do not take some form of initiative, there will be many small initiatives, as is already happening with renewable energy and biofuel plants. John Gilliland is researching wood chips — all sorts of different things are happening. However, there is no integrated approach. Some integration has been introduced into food strategy, but it is limited because of resources. It is good that the practitioners — the people on the ground — are doing it, rather than using the machinery that is already there. When that happens, there is more initiative, pragmatism and reality.

2871. **Mr Sharkey:** I can assure the subgroup that milk producers are not a dying group: they are very vibrant. Recently, a milk producer in Dungannon won an award for the best breeding and production herd in the UK.

2872. Over the years, the number of farmers milking cows has fallen, but the pool of milk has been maintained and, indeed, has increased. By and large the farmers are restructuring and taking costs out of the system. Herds are larger, which makes them more efficient.

2873. The farming sector has done almost as much as it can — some 4,500 farmers produce

about 2 billion litres of milk, which is phenomenal. The main difference between Northern Ireland and the mainland is that we have a small population. The percentage of our total milk pool that goes to liquid milk is 15%, whereas across the UK it is 50% to 60%. Many more people there drink milk every day. Therefore we have to turn our milk into many different products — we must sell milk products rather than liquid milk. The processing sector will have to be restructured to manufacture more innovative products that use large amounts of milk. We have been moving towards that, although not as quickly as we might have. On the farmers' side, there is a stable number of vibrant producers; on the processing side, there is a need to find more innovative products that use more milk and find markets for them, rather than concentrate on the liquid market. We simply do not have the population for the production of liquid milk.

2874. **The Chairman (Mr A Maginness):** Three members wish to ask questions: Mrs Long, Dr Birnie and Lord Morrow. I ask them to keep their questions short so that witnesses can reply.

2875. **Mrs Long:** I found your presentation useful. Mr McNarry asked about the negative side of diversification, which merely takes people away from food production. From a previous career, I am interested in the waste treatment and biodiesel side of diversification. Given what you said about environmental and social impacts when people give up farming to do something completely different, could waste management and biodiesel be a more positive form of diversification? Could that complement food production rather than simply take people away from the land?

2876. My second question is on research and development, which has already been mentioned. Northern Ireland businesses suffer from a lack of investment because the local economy has many small and medium-sized enterprises. Can research and development in farming and agribusiness in Northern Ireland be increased only by restructuring the industry, or is it simply a matter of investment?

2877. **Dr Birnie:** This point is perhaps provocative, but allow me to play devil's advocate. The New Zealand model allegedly allows for much freer trade, the ending of subsidies and specialising in comparative advantage. Why should we not do that?

2878. **Lord Morrow:** What is your position on rural planning as laid out in Draft Planning Policy Statement 14? Do you support its measures? Is that the way forward and does it benefit agriculture? How long will it take for the benefits of the lifting of the ban on beef exports to other EU countries to filter through to Northern Ireland farmers?

2879. **Mr Sharkey:** I will work backwards, taking the beef ban and rural planning first. We thought that the advantages of the lifting of the beef ban would have filtered through the system more quickly than they have done. The UK retail market is at a low level, which presents us with a dilemma. Farmers in Italy get 50% more for carcass meat than we get, even though the retail price in the store is the same as here. That tells us that farmers' share of the food chain could be better. Unless there is a dramatic change soon, production will fall and prices will be forced up.

2880. As for rural planning, the Ulster Farmers' Union responded to the consultation on Draft Planning Policy Statement 14, although I am not sure whether the subgroup has seen a copy of that response. Reflecting our membership, there were quite diverse opinions on that, but our conclusion was basically that in recent years planning has needed better structure and regulation. Bearing that in mind, however, we realise that to have a vibrant rural society there must be development and building in the countryside, and people must live and work there.

*12.15 pm*

2881. The countryside would look much better if the many disused houses there were replaced with new buildings. That would also give people an opportunity to build houses in country areas without using up any green land.

2882. Another concern is that VAT can be reclaimed on a new build, but not on a

renovation. That forces people to build new houses rather than simply renovating an existing one. Planning needs to be better planned and controlled than it has been, but there should not be a blanket ban on new buildings.

Development and planning are necessary for the creation of a vibrant rural society, which will encourage new people, particularly young people, to settle in the countryside.

2883. **Mr Black:** My apologies to Mrs Long, but I will not answer her question first — I am working up to it, though.

2884. Dr Birnie asked about the New Zealand model; I will make two brief comments on that. First, farmers would be quite happy to do without support if they could find profitability within the industry. Ultimately, the market has to move upwards before support can be stopped. We know what it takes to produce something, and farmers would prefer to get some form of support from a European system rather than depend on a food chain that is currently dominated by four or five big retailers. That is a much safer bet; we just do not feel that we would get that support the other way around.

2885. The second point is wider. The European model of agriculture has been based on a three-stranded approach: economic, environmental and social. We have touched on the need for sustainable rural communities, and there have been questions about skills. Rural areas are sustained by an industry that recycles funds and energy back into them. New Zealand found to its cost that much of that had disappeared for a period, although some of it is now coming back again. That is one way to preserve a European model of farming that involves a longer-term strategy rather than a short-term, market-driven strategy.

2886. To return to the first question, we agree entirely with the point about the complementarity between alternative production and food production. Farmers are not necessarily wedded to the idea of producing beef and milk if nobody wants it. We know that there is a need for it. For some of those commodities, there is as little as just a few days' or a few weeks' supply at world level. You can afford to go down to that level

because there is a production cycle that keeps producing it. We think that we can afford to drop to that level; it has never been proved otherwise.

2887. Oilseed rape is an example of a good crop that fits very easily with wheat production in arable areas. Many of us would be uncomfortable with some of the thinking in parts of the south of England, where they are considering producing wheat to burn for energy. Our natural reaction is to feel very uncomfortable about that because of the starvation in many parts of the world.

However, a complementary way of dealing with that would be to grow wheat in years one and two, then oilseed rape in year three, and then back to growing wheat for food.

2888. I was asked about restructuring and investment. We believe that that is the way forward for research and development, but that will not happen unless it is driven forward. Plenty of people in our industry are happy to do that if they receive support rather than be told: "You can't do that, because of this". They must be encouraged, not restricted.

2889. **The Chairman (Mr A Maginness):** Thank you very much, Mr Black and Mr Sharkey, for your very interesting and stimulating presentation. I am grateful for your coming here today.

2890. I propose a short comfort break, and we shall recommence in about five minutes, at which point we shall hear from Mr Wright.

*The subgroup was suspended at 12.21 pm.*



*On resuming —*

12.27 pm

2891. **The Chairman (Mr A Maginness):** I invite Mr William Wright, the chairman of Wrightbus Ltd, to make his presentation. Before I do, however, I propose that we have sandwiches at the end of the session rather than during it. I hope that colleagues find that satisfactory.

2892. **Mr Weir:** Mr Chairman, by that do you mean at the end of Mr Wright's presentation or after the Department of Finance and Personnel has made its presentation?

2893. **The Chairman (Mr A Maginness):** The latter.

2894. Thank you for your patience, Mr Wright. We have heard two very interesting and worthwhile presentations, and we look forward to hearing yours. Perhaps you would make a 10-minute presentation, at the end of which members will ask questions.

2895. **Mr William Wright (Wrightbus Ltd):** I appreciate this opportunity, because sometimes we in industry feel a bit like a patient: the consultants go round the bed while the patient hopes that they will find a cure for his disease. So many people pronounce on industry that we wonder whether they know about it all.

2896. I will start with education because I have been involved in the administration of technical education for about 25 years. I spent six years with the North-Eastern Education and Library Board. I have another qualification: we use the product of the education system. In my presentation, I ask whether the education system has failed industry and commerce. I say categorically that that has had a major impact.

2897. We have a training school into which we bring between 30 and 50 apprentices, depending on the marketplace and the quality of the apprentices. We are a skilled enterprise with very few semi-skilled employees; they are all skilled coachbuilders, engineers and fitters. Therefore, we depend on skills, and it is on their skills and ability to absorb what we teach them that we select our apprentices. However, when

we test our incoming students, we find that one third could not measure the number of square metres in this room. They could, when shown how.

2898. We have a pretty high profile in the Ballymena area; we visit all the local schools and encourage them to visit us. We try to encourage the kids, but, unfortunately, the education system is not working. I wanted to start my presentation with education, because if we do not get the right quality of students and apprentices, we will not build the industrial base that we need. I was at two board meetings yesterday, so I am not as well prepared as well as I wanted to be.

12.30 pm

2899. I read an article in one of the broadsheets last week. It quoted some observations from the Organisation for Economic Co-operation and Development (OECD), which is probably one of the most respected think tanks on economic matters. The headline read:

*"Poorly educated workforce is drag on UK productivity".*

2900. The article states that productivity is the most reliable indicator of the country's economic health and reports the OECD's views on UK productivity. The OECD said that the UK is relatively weak in the field of innovation. It continues:

*"30 pc of 25 to 34-year-olds are low-skilled, a considerably larger share than in most other OECD countries."*

2901. The OECD also said:

*"There is therefore a clear need to expand education and training at the intermediate level."*

2902. I wish to make a point about that. A new education system has been proposed for Northern Ireland. I do not see how that will work. In Ballymena, there are three grammar schools — St Louis Grammar School and Ballymena Academy, which are first-class schools, and Cambridge House Grammar School, which is a newcomer and therefore probably not as well developed as the other two. They are all located in the affluent town of

Ballymena. How in the name of goodness are we to divide pupils among those schools? My solution is quite simple: our secondary schools should become junior technical schools.

2903. I have a great admiration for the education that I received. I received two scholarships: one to Ballymena Academy and one to Ballymena Technical College. I picked the tech because that was what I wanted. If we were to have junior technical schools, we would raise the awareness of the secondary-school system. At present, parents see it as a second-class system. We could dispel that view by changing the emphasis and by introducing a curriculum that is orientated towards industry and commerce. Pupils would probably attend those schools from 14 years of age — that was the age at which I moved from the primary-school sector to the technical college. That change would make a tremendous difference to our education system. It would produce people with the knowledge to be able to appreciate the world of industry. I have only a junior technical certificate, but it has helped me immensely throughout my life in industry.

2904. Wrightbus Ltd has a turnover of £100 million and employs almost 1,000 people. We depend on the people coming through. At the moment, we are getting very poor-quality entrants coming in at the bottom end. If we bring in 30 people, we will probably lose about 10 in the first year. Do not ask me why. They probably find our system too intense. It is intense; it has to be. We are an industrial operation that sells across the world. We must also be very competent technically. When we send a vehicle to Hong Kong, it had better be good — it is a long distance away.

2905. If we can get our education system right, we can make great strides forward. However, I cannot see that happening at present. We are starting to amalgamate our institutes of further education. I was involved in the 1994 amalgamation of Antrim Technical College, Ballymena College and Magherafelt College of Further Education. Its problems have just about been solved, after losses of £2 million. The new amalgamation will take in Coleraine and Larne,

and all stations in between. I cannot see the logic in that.

2906. I will move on to fiscal incentives, rating, energy costs and planning. Fiscal incentives help. We get quite good help from Invest Northern Ireland. We cannot complain, even though that contribution is only 25% of the total cost. We spent £2.5 million on developing the StreetCar, for which we received a Government grant of only a couple of hundred thousand pounds for research and development. One must be prepared to be innovative all the time. Fiscal incentives are OK, but they are only a small part of what is required. If people do not want to innovate, all the grants in the world will not persuade them.

2907. I will provide some figures: our electricity bill is £250,000; our oil bill is about £300,000; and our total rates bill is £312,000. That has a two-fold effect. We had planned two new expansions for a new R&D centre and a new composites centre. We scrubbed both those because of the rating system. Rating is a major issue.

2908. The difficulty is that we are in an industry that requires a lot of square footage. A bus measures 12 metres by 2.5 metres, and a great deal of space is required to build a bus. We produce 1,000 buses. We have roughly 5,000 40-foot trailers, in addition to equipment and buses. We import 1,000 chassis from the likes of Volvo, Scania and other companies, and we export 1,000 buses. Approximately 10 articulated lorries arrive at our plant every day. The total value of the material at our plant is around £50 million. We import material from as far away as Poland, Romania and Italy. For example, our seats come from Italy. We must import material, which is a cost that our competition on the mainland does not have to bear.

2909. Rating is just one issue; there are higher energy costs on top of that. Our economy costs are not a terrible burden, but they are an additional burden. The rating system recently killed two of our projects. Our rates bill was increasing, and the projects would have taken money away from research and development, which is our lifeblood.

2910. We started our company at the back of the family home. We would probably have been strangled at birth by the planning authorities of today and we would never have survived. Planning is a major difficulty. The applications for planning permission for the extensions that I mentioned have been in the system for three months now. The extensions will be built on an industrial site; the applications should be rubber-stamped.

2911. I wonder about the value of foreign investment. Look at the headlines: General Motors paid off 20,000 people in the USA. We have a licensee in America, and we have quite close contacts there. The help that American industry gets is quite phenomenal because a lot of industry has been lost. The Japanese have taken over quite a bit of the car industry. New factories that were set up to build trucks are all closing. Local authorities are producing incentives to get people to move into a brand new factory with a workforce.

2912. Foreign investment is a bit of a damp squib. If the indigenous population has the right mentality and the right outlook, companies will do far better. If, for every pound spent on foreign investment, 50p were spent locally, there would be a better output. That is my view, after 60 years in industry.

2913. We have been helped at different times by the Industrial Development Board and Invest Northern Ireland, but only in part. If we had not had the inclination and the ability to go ahead, we would not be where we are.

2914. Indigenous investment can play a big part, because it is very difficult to attract foreign investment at present.

2915. I want to speak about licensing, which is a far more effective way to attract investment. My design director used to work for Ford. In fact, he drew the first sketches of the Ford Fiesta. His wife is from Lurgan, and their parents were getting old, so they decided to come back to Northern Ireland, even though things were quite hot at the time.

2916. We looked for potential markets around the world. At the time, we employed about 130

people. We realised that the Northern Ireland market was too small. The large tariff barrier in the Republic of Ireland meant that we could not export to there, so we had to look elsewhere — to America, for example.

2917. At a trade fair in Frankfurt, my design director and I spotted a system of putting aluminium framing together. We use that system in all our buses, and it has been the secret of our success. It is a simple system that was patented for 10 years, although the patent has now expired. When we discovered the framing system, the patent was held in Switzerland when the system was exported from there.

2918. Licensing is the way forward. With its worldwide contacts, INI should be looking for licences that will appeal to people in Northern Ireland, but our people must have a hunger and a knowledge in order to use that licence. A door manufacturer in Ballymena is doing quite successfully from an American licence. Licensing is a far better way in which to obtain overseas money than foreign direct investment.

2919. Reducing the rate of corporation tax would certainly be an advantage to business. We pay around £1·3 million in corporation tax a year; under the Republic's tax system, that figure would be about £450,000. Electricity costs are high, and, although we use quite a bit of power, we do not use that much for electricity costs to be an issue. As I said, there is nothing that we can do about oil prices.

2920. Our bank has been quite good to us. We use one particular bank, but I do not want to name it. *[Laughter.]* We have been through tight times and good times, and, generally speaking, I cannot complain about the bank. The early years were certainly difficult. When we started the business, we had an overdraft of £100, and it is difficult to run a business on that. Now, however, we lend the bank some money, and it lends us some money. That is how we deal with biggish amounts of money. Our bank has worked with us and helped us to expand at certain times. In my experience, if a person is truthful and open with the bank, it will be there for him during tight times.

2921. On one occasion, I was working with a man on a big contract in Strathclyde. When he went bankrupt, it caused tremendous difficulty. In three days, my overdraft was increased four times. It took us two years to rid ourselves of that problem, but the bank stayed with us. The man who went bankrupt was not really bankrupt — the bank lost faith in him.

2922. Banks have been a good source of finance. Other sources of finance can be difficult, because they are mostly provided by venture capitalists. We have steered clear of venture capitalists because they usually want quite a big slice of the cake. We have many opportunities now — in America, for example — but we do not like to expand beyond our capability to finance it. We have financed the company partly through bank loans, but mostly through ploughing back the profits into the company.

2923. We are a family company of miserable Ballymena men and women. As Willie John McBride said, copper wire was invented when two Ballymena men got the hold of a penny.  
[Laughter.]

2924. **The Chairman (Mr A Maginness):**  
Thank you very much, Mr Wright.

2925. **Mr Weir:** Thank you for your informative presentation, Mr Wright. You mentioned that R&D is your company's lifeblood, and that the 100% rates that are being phased in are a disincentive to opening new or additional premises for R&D. It would be helpful if you could tell the subgroup how much R&D your company undertakes and by how much you hope to expand that. Moreover, what potential threat do the 100% rates pose to your future R&D?

12.45 pm

2926. You specifically referred to difficulties with planning issues. Obviously, that is one example of where Government inefficiency or over-regulation is a barrier to business. What are your views on Government regulation? Is it a barrier to expansion or efficient business use?

2927. **Mr Wright:** This year, Wrightbus Ltd is likely to make a profit of between £4 million and £5 million. The taxman will take 30% of those profits. As a family, we do not take much

of the profits. As I said, we are relatively simple, miserable Ballymena people. We do not have a BMW in the family, although we do have a Lexus.

2928. In developing the StreetCar, we spent £1.5 million last year and £1 million this year. We had to develop three new models — two for Volvo and one for a new customer. We have also produced a hybrid-electric vehicle, six of which are running in London, which save 40% on fuel. We built the first low-floor buses in Britain. We got the first contract for low-floor buses in London, mainly because we saw a gap in the market. We had been building vehicles for the welfare market, and we saw that those buses had to transport people with disabilities. We realised that disabled people felt nervous when they had to be lifted high off the ground, so when we saw the designs for low-floor buses in Germany, we decided to build them. As I said, we got the first contract for low-floor buses in London, and we have retained roughly 70% of that market.

2929. Increased outgoings such as higher fuel costs, higher electricity costs and higher rates mean that there is less money to spend on R&D. I know that Government could give us 25% of the cost of R&D, but we would still have to find the remaining 75%. Another thing to remember about R&D is that, because the people who are involved in R&D do not produce gross value added (GVA), they are an expense. To make R&D worthwhile, we need to reinvest 50% of our profits.

2930. We developed the low-floor bus. We also built a double-decker bus for the First Group. The market difficulties that the Hatfield rail disaster caused meant that bus companies stopped buying buses, because they were not receiving cash from the rail companies. Therefore we looked for alternatives, and the only market that was still buying was London, which remained nationalised and had money to spend. We developed a new double-decker bus, and it has been one of our most successful products. Wrightbus Ltd has 700 double-decker buses in London.



2931. We have spent approximately £500,000 to £750,000 on R&D for the hybrid-electric bus. The hybrid was my idea. As a kid, I was asthmatic, so I was always very conscious of fumes, especially motor fumes. I realised that hybrid buses would be the next big thing in city centres, and, therefore, we developed the hybrid bus. We had it tested by Transport for London. The tests show that it saves about 40% on fuel, which in turn saves 40% on carbon dioxide; nitrous oxide emissions are down to 0.2%; so particulates are reduced dramatically. We really feel that the hybrid bus has a bright future.

2932. Last weekend, we held talks with the boss of the First Group, which runs 10,000 buses. It is looking for 100 buses for a project in Glasgow and is interested in the StreetCar. As the market for engines for hybrid-electric buses is difficult and our knowledge is limited, I did not trust us to build an engine here to supply to America. Therefore, we have linked up with an American company. It is building the engine, and we are building the body and shipping it over from Ballymena.

2933. Unfortunately, we are over-regulated. One company in Ballymena was expanding; I was on Ballymena Borough Council, and our health and safety people recommended that the workers be allowed to work only until 6.00 pm, or 1.30 pm on a Saturday. It was unbelievable that that should be imposed on what was quite a big employer in Ballymena. I do not want to name him, but he is in the agriculture sector. He had spent quite a bit of money on expansion and was working to a timescale, and somebody comes along and says that he could work only until those times. The reason was that the factory was cheek by jowl with a housing complex. The planners allowed that to happen, and it happens all over the place. We suffered from that on our site. Regulation is an increasing burden, and much of it is nonsensical.

2934. **Mr McNarry:** I recall the day when the banks backed the man; now they seem to back the payback. That style of man and his ideas are hard to encourage today, and I suspect that you have sympathy for young entrepreneurs. They might not go through the brick walls that you

have gone through; sometimes they need some help.

2935. Do you think that the problems that you have identified in education are indicative of parents, pupils and schools thinking that manufacturing industries are not likely to offer sustainable employment? I agree with what you said about vocational skills. The curriculum is not being directed in that way, perhaps because of the mistaken perception that there is no future in local manufacturing because it is in decline.

2936. I was speaking to some medium-sized manufacturers from the South at the weekend. They recognise the benefits of the corporation tax rate in the South. Interestingly, they said that capital gains tax is a major issue for them. They have probably banked the corporation tax moneys and are now examining capital gains tax. What benefits do you think capital gains tax on a par with the Republic could have for local manufacturers and businesses?

2937. **Mr Wright:** Tax is one of those things. The Government keeps inventing taxes, and we keep paying them.

2938. I am going to say something that I did not intend to say: the size of our public sector and the Civil Service have reached intolerable levels. There are 90,000 people in manufacturing industry, and we cannot sustain it. I do not believe that we can cure the problems, because they are so well entrenched. I served 16 years as a councillor and six years on an education board, and there is no way that the Secretary of State will ever reduce it by any sizeable proportion.

2939. **Lord Morrow:** He says that he is starting on 24 November.

2940. **Mr Wright:** He will do you guys first. *[Laughter.]*

2941. You talk about the education sector. We had a growth challenge, which is industry trying to get the whole thing going again. Coming from my background in education administration, I suggested that trainee teachers visit factories in order to counter the “dark Satanic mills” image.

2942. I thought that it was a good idea, but they did not, because within nine months, it floundered. It started off with about 20 trainee teachers, then there were 15. I think that Wrightbus Ltd was the last company they visited, and by that stage there were six teachers. Wrightbus Ltd probably has about 150 computers, and there are quite good offices, although there is no air conditioning. We are also doing well on the working environment.

2943. However, there is a particular notion in the education sector about factory work and much of it is to do with administration. I was on the North Eastern Education and Library Board, and most of the people on the board were ex-teachers and ex-lecturers — two thirds had been nominated by the officials. They had never seen the inside of a factory. Somehow we must break this cycle, and I do not know how to do it. I tried and I floundered. I thought that it would be beneficial to allow trainee teachers to visit the factories in order to let them see the workings of the industry and to see if there might be jobs for the children of the future.

2944. **The Chairman (Mr A Maginness):** Perhaps a few civil servants could visit factories as well.

2945. **Mr McElduff:** I welcome Mr Wright's practical, common-sense approach. We saw it earlier when Mr Reid from Moy Park Ltd gave evidence to the subgroup; he also brought us the benefit of his practical experience. Mr Wright, if you could prioritise one element of Government intervention or support that would benefit indigenous local businesses, what would that be?

2946. **Mr Wright:** I would recommend that we use the Invest Northern Ireland network to look for licences; that would be the best thing. I said that at an Invest Northern Ireland conference one day, but they were not of the mindset to understand.

2947. **The Chairman (Mr A Maginness):** What do you mean by licences?

2948. **Mr Wright:** I mean obtaining a licence to manufacture. For example, a Swiss aluminium company developed a system for bolting a bus together. The advantages are simple. If a bus

has a damaged pillar, I can screw it out. If a bus has a damaged front end, it can be lifted off and replaced by another. That is what we do; we send complete front ends to England to replace those that have been damaged in bad smashes.

2949. **Dr McDonnell:** That is like the old Morris Minor.

2950. **Mr Wright:** The person must look for the licence he or she needs at any particular time. When we had a particular product need, I went to America and found the solution there. The advantage was that I had 10 years of learning how to use the product before the licence expired, so I knew more about it than the licensee; I had practical experience.

2951. I got a licence for a hybrid-electric bus from a company in Los Angeles, and I also licensed a turbine from another company in Los Angeles, but it was not a success. However, that is how it is done; you have to look for the product. I could have had English drive units, but I did not have the correct software. The software for driving hybrids is complicated.

2952. Therefore instead of trying to encourage a manufacturer in Taiwan to come to Ballymena — or somewhere else in Northern Ireland, because there is only 2.5% unemployment in Ballymena — the Government should help Northern Ireland companies to obtain licences.

2953. **Mr McNarry:** They should come to Newtownards; nobody ever comes there.

2954. **Dr McDonnell:** You have scared them all away.

2955. **Mr Wright:** That would be a great advantage for the industry, and it would be beneficial for those who are looking for products. There will be always be a downturn at some point, and people will need to look for products. I believe that the solutions are out there, if you look for them.

2956. The person who licences something will have an indigenous manufacturing operation; he will have paid for all the product development work. If he can add value by licensing the component, or whatever it is — especially in a market where he has no existing input — that is

a plus for him. It is also a plus for the person who licenses the product, because he gets the technology. He may have a learning phase, but he has the chance to build further on that knowledge. Therefore it is a plus for everybody. That is my basic reasoning.

2957. I know that Invest Northern Ireland has offices all over the world. I believe that they should search for product licences instead of trying to encourage some American or Chinese company to come here. I do not think that completely works. Invest Northern Ireland has done some good, but it has done more bad.

2958. **The Chairman (Mr A Maginness):** Sean Neeson, Margaret Ritchie, Alasdair McDonnell and Esmond Birnie wish to ask questions. They will ask their questions in that order and Mr Wright will answer.

*1.00 pm*

2959. **Mr Neeson:** I always feel chuffed when I go to London and see Wright buses travelling the streets. Does your company depend greatly on the export market?

2960. **Mr Wright:** We sell to Translink, and we have sold to the Republic of Ireland, but not since 2002. Our main market is the UK. We sell to Hong Kong, and we have sold to Holland, but the European market is difficult. We have a licensee in America who builds under licence for us.

2961. Markets have peaks and troughs, and exports help to fill in the troughs. Markets may be strong in one place but weak in another. Consequently, export markets are valuable, but they will not keep a company going. England is our real market. There are five big bus companies there, and we sell to four of them. That has been a successful operation.

2962. **Ms Ritchie:** With regard to financial incentives, what contribution would a peace dividend make to the local economy?

2963. **Mr Wright:** You were involved in the Peace I programme with me, unfortunately, just after it became apparent that a great deal of money had gone to the wrong place — Belfast — but that was just one of those things. I am

unsure about Peace money. I was on the Peace I programme board, and I examined the need for investment in Ballymena. I was also head of economic development in Ballymena Borough Council. The most difficult thing was to allocate the money, especially in the farming sector. Through an INTERREG programme, we tried to encourage farmers to be inventive and to consider how they could diversify. We did our utmost, but we were unsuccessful.

2964. You cannot take a horse to water if it does not want to drink. There is a lot of that about. A friend of mine talks about the “BMW syndrome”. People do quite well until they get a BMW in the driveway, and then that is it. We never had a BMW — we kept looking for one, but we never got one.

2965. **Dr McDonnell:** I congratulate Mr Wright. He has done a tremendous job, starting from humble simple origins at the back of his home to employing 1,000 people with a turnover of £100 million a year. If we had one or two more people like him, we would not have as many economic problems.

2966. I welcome Mr Wright’s comments on licensing in both directions, because, not only do you license in but you license out and manufacture buses in the United States. Perhaps we should pursue that concept more aggressively.

2967. As an aside, you mentioned importing seats from Italy. Are you unable to source more components locally, or is there something wrong with the local market? A company in Kilkeel makes aircraft seats, but perhaps aircraft seats and bus seats are different.

2968. **Ms Ritchie:** That company is BE Aerospace.

2969. **Dr McDonnell:** Yes, and it struggled at times.

2970. **Mr Wright:** The problem is the cost of seats. It makes sense for Wrightbus Ltd to buy whatever it can in Northern Ireland.

2971. We buy fibreglass units, and so forth, from Poland. We need a week’s supply of stock to be able to handle any delays in supply that

may have been caused by a bad storm on the continent or at sea. Therefore we must carry more stock so that we can remain part of that supply chain. However, it is in the balance as to whether Poland can supply us at the right price.

2972. We find it difficult to educate local industry about delivering on time. The priorities at Wrightbus Ltd are, in order, delivery on time, quality and price. We run a production line. Every bus moves along that line every night, and if the materials are not there, we are in trouble. Consequently, it makes sense that our logistical supply lines are as short as possible. Anyone who visits Nissan will see satellite companies located all around the factory. We have great difficulty in finding local suppliers who are clued-up enough to understand our demands.

2973. However, we use one or two good local suppliers, such as a sheet-metal firm in Magherafelt. We buy as much as possible locally, but the Italians seem to have a flair for designing seats, and so forth, and are likely to produce good-quality seats on time. We have used English seat manufacturers who have not reached that standard. Big bus companies usually influence and select the style of seats. Bus interiors have changed and are now completely colour-coded.

2974. When the bus industry was denationalised and the money that was received from selling off all the nice bus depots that town centres had disposed of, it was decided that the only way to make money was to get people onto the buses. When market research discovered that 70% of ridership was made up of women, Wrightbus Ltd started to colour-code the interiors of its vehicles according to women's preferences, which are pink and that sort of colour. I am sorry, Margaret. *[Laughter.]* Do not worry, Margaret, some of our bus interiors are red.

2975. We brought in a new strategic buyer recently — a returning ex-pat — whose express job is to develop our use of local suppliers.

2976. **The Chairman (Mr A Maginness):** Dr Birnie, as we are running out of time, will you forgo your question?

2977. David, are you coming back?

2978. **Mr McNarry:** No.

*The subgroup became inquorate at 1.09 pm.*



*On resuming —*

*1.10 pm*

2979. **The Chairman (Mr A Maginness):** I welcome officials from the Department of Finance and Personnel (DFP) — Mr Bruce Robinson, permanent secretary, and Mike Brennan from supply branch.

2980. Gentlemen, we have read your written submission. Mr Robinson, after you have touched on the salient points that you wish to highlight, the subgroup will move to questions.

2981. **Dr McDonnell:** Could the presenters brace themselves to answer some of the questions raised by the previous presentation? We will have to go to town on them.

2982. **The Chairman (Mr A Maginness):** I think that that is a health warning.

2983. **Mr Bruce Robinson (Department of Finance and Personnel):** I heard it as a promise.

2984. We are delighted to be here. Mike Brennan is involved in the supply side, but he is also our chief economist, and that will inform his contribution this afternoon.

2985. I will tie the key messages to the subgroup's terms of reference, and talk briefly about the performance of the local economy. The local economy is doing well, and that is significantly due to employment growth. The challenge for us as a regional economy in the developed western European world is to greatly increase our value-added figures.

2986. I have listed five absolute key points that illustrate the need to improve. Gross value added (GVA) per hour is around 15% lower than the UK average. Our performance in the four productivity drivers — enterprise, innovation, skills and infrastructure — all leave something to be desired. Everyone recognises that Northern Ireland has a heavy dependence on public expenditure.

2987. One of the points that I wish to put forward, which has come forward in evidence from other groups, is that — given the range of issues — it is exceptionally difficult to see a single action or intervention that could change

everything. That might well be a contentious point for the subgroup.

2988. I do not need to deal with the four drivers of productivity, as they probably featured heavily in the Department of Enterprise, Trade and Investment's presentation. However, there are some indications of improvement on the enterprise side with the trend on VAT registrations increasing.

2989. I am also conscious that the subgroup is interested in economic inactivity, and I have produced a slide that shows that the gap in economic inactivity rates between Northern Ireland and other regions in the UK, when education is stripped out, is not as great.

2990. In relation to public sector dependence, both the levels of employment and the percentage of public expenditure are very high. There are reasons for the identifiable public spend per head, which has evolved over time in response to the particular needs in Northern Ireland.

*1.15 pm*

2991. Current thinking on the economic development policy is largely based on the work that has emerged from the Economic Development Forum, centring on the interaction among the four drivers of productivity and the need to rebalance the local economy. Although some of the economic incentives package is open for us to deal with locally, the key interest for the subgroup concerns fiscal incentives, and we note the fact that those are, at present, determined nationally. A consequence of that is that engagement with the Treasury is crucial. The current policy — and I am stating the obvious — is for a unified regime across the UK.

2992. One issue that features in suggestions for a different fiscal regime is the likely impact of differential treatment in Northern Ireland on the other parts of the UK. That is something that would have to be considered by the subgroup. I will reiterate some points about corporation tax: although the headline rates are 30% and 12.5%, the effective rates are 21.7% and 13.7%. Many smaller firms in Northern Ireland enjoy a rate

around 19%. References have been provided on the sources of those figures.

2993. An economic package or peace dividend is obviously a key part of the subgroup's work. Given existing policy and the emphasis on the four drivers of productivity, it seems to the Department that that is the way to address the long-term endemic problems of the Northern Ireland economy. That is why we have referenced addressing those as part of the package. To do otherwise might achieve an improvement in some areas of activity but, overall, it would not achieve the desired level of impact.

2994. Putting the economic package into context, there is no doubt that a significant change in public expenditure is under way. The Department is committed this year to participating in the comprehensive spending review. That work is well under way. The next stage involves the detailed work to be done in the autumn. The Treasury has acknowledged in discussions that the extent of public sector reform under way in Northern Ireland is exceptionally high. I have highlighted the main aspects of that: the Review of Public Administration, water reform, rating reform, fit for purpose reforms in education and further education, and curriculum reform in education. There is recognition that Northern Ireland is committed to ambitious changes, designed to redress the balance in the local economy between the private and public sectors. That is helpful in creating the context and the climate for your work.

2995. That is a quick summary. I am happy to take your questions.

2996. **The Chairman (Mr A Maginness):** Thank you, Mr Robinson.

2997. **Dr Birnie:** How much revenue is currently collected in Northern Ireland from corporation tax? Were the rate to be reduced to 12.5%, what would be the estimated revenue? Have the Department of Finance and Personnel or others in the Civil Service attempted to model the effect of a lower rate on revenues over time? I ask that with regard to an argument with which you will be familiar — that a lower rate will encourage inward investment and therefore

higher revenue. That is important because it has been suggested to us in previous evidence.

2998. **Mr Mike Brennan (Department of Finance and Personnel):** Corporation tax estimates lag quite considerably. The latest figure that we have was given to us by the Treasury when we were compiling our fiscal deficit work — around £640 million of the corporation tax collected in 2003-04 was attributed to Northern Ireland. As Mr Robinson said, the vast majority of companies in Northern Ireland are classified as small and medium-sized enterprises, so if they pay any corporation tax at all, it is at 19%. We estimate that if the corporation tax rate were reduced from 19% to 9%, the difference would be only between £70 million and £90 million — but, to be honest, that is a back-of-the-envelope calculation.

2999. In answer to your third question, we have not considered in any great detail what the effects of a lower rate of corporation tax would be.

3000. **Dr Birnie:** I suggest that that crucial issue should be examined. Other witnesses have argued for a lowering of the rate.

3001. **Mr Brennan:** We are tied into work that the Department of Trade and Industry and the Treasury are carrying out as part of the comprehensive spending review. The outcome of that work will be the starting point.

3002. **Mr B Robinson:** It is important to remember that, in the context of attracting FDI, the relevance of the corporation tax rate differs among businesses and among sectors. If it were a simple black-and-white issue of corporation tax being the determinant, the conclusion would be that Northern Ireland could not attract any FDI at this time — nor could it have during the past 20 years — because of the lower rate in the Republic of Ireland. If corporation tax were the all-consuming difference, Northern Ireland would not have been able to attract any FDI. Therefore, attributing a weighting to corporation tax in the corporate decision is hard work.

3003. **Mr Brennan:** It is worth pointing out that when Forfás carried out work to establish the factors that are critical to attracting inward investment, issues such as skills levels and

English language skills ranked higher than corporation tax.

3004. **Dr Birnie:** Surely our skills levels and language skills are comparable to those in the Republic of Ireland? There must be something else differentiating the two economies.

3005. **Mr Brennan:** One of the issues that have emerged in the drafting of the economic strategy on the skills side is the possibility of a mismatch between the skills that employers are looking for, and the skills that are currently provided. The vocational and technical colleges in the South have been very successful in forging links with industry.

3006. **The Chairman (Mr A Maginness):** Sir George Quigley has argued very publicly and forcefully that a lower corporation tax in Northern Ireland would be of great assistance. He says that investors from outside the UK have told him that they preferred to invest in the Republic of Ireland because of the lower rate of corporation tax. That is his experience; it is really an empirical approach, rather than theorising. What do you say in answer to Sir George's argument? That position is supported by other people too; it is a very forceful argument that has gained a lot of traction among politicians here.

3007. **Mr B Robinson:** I am not disputing that; I am making a somewhat different point. Some businesses have undoubtedly gone to the Republic of Ireland because of its rate of corporation tax. However, if the corporation tax rate were the all-powerful, single determinant — Sir George does not say that, but some of what he has said has taken on that aura — Northern Ireland would not have attracted Seagate, Montupet and Citibank.

3008. The challenge for all of us, and the really difficult challenge for the subgroup, is to shape not a twentieth-century view but a twenty-first-century view of the relative importance of high skills versus the best interactive electronic network infrastructure versus corporation tax.

3009. We are looking to the future and to a developed Western World that will be competing against a significant economic challenge from

China and India that was not around even as recently as 10 years ago. Moreover, taxation is one of the key issues that any corporation looks at, but, as Mr Brennan said, the work that Forfás has done points to several other issues. Companies that decide to invest in the Republic of Ireland have either been satisfied on all of the issues, or the corporation-tax issue outweighs some of their other concerns. It has undoubtedly been very successful.

3010. **Dr McDonnell:** Our biggest problem is that, at times, everybody is in control of our economy, but, at other times, nobody is in control of it. All sorts of components have a veto, but — with all due respect to you, Mr Robinson, particularly because of your previous experience in the Department of Enterprise, Trade and Investment — nobody is prepared to lead or drive our economy, even though we have DETI, the Department for Employment and Learning and the Department of Finance and Personnel.

3011. The question of R&D has arisen time and again. Even the Ulster Farmers' Union referred to R&D, and that surprised me. They brought up the level of R&D in Finland. We are all very fond of Finnish R&D. We all carry examples of it in our pocket — my mobile phone was at the edge of R&D about five years ago when I bought it.

3012. **Ms Ritchie:** It is very old.

3013. **Dr McDonnell:** It may be old, but it still works.

3014. **Ms Gildernew:** Do you mean you or the mobile phone?

3015. **Dr McDonnell:** Both. I work very well, as does my phone.

3016. We need to find a mechanism to encourage R&D, because it is not coming through in Northern Ireland. I do not apportion blame, but in the event of market failure or private-sector failure, the responsibility falls to the public service, aided and abetted by whatever political influence and support that we can give.

3017. I shall now get on my hobby horse. Queen's and the University of Ulster must

create new businesses. We are not doing enough of that, although a remodelled and reworked UUTech seems to be working better.

3018. Despite its brainpower, Queens is not coming up with innovation and practical, applied product. It may be doing wonderful economic research and development, but it has mystified me for years why we cannot get some of that to the point where the rubber is hitting the road and where we establish start-ups.

*1.30 pm*

3019. The start-ups that we have established — Andor Technology, for example — have been tremendous. Failures are not coming out of Queens, but that is because we do not have enough start-ups. What does come out of Queens is successful, but we do not take risks.

3020. How do we learn to take risks when encouraging start-ups? Willie Wright applied his experience to a very localised, specific industry, and there was much wisdom in what he said. We have enough indigenous brainpower to do better than use foreign direct investment, yet we depend on it because we are not unblocking the universities' output.

3021. **Mr B Robinson:** All of the evidence supports your point about the importance of innovation and R&D. Therefore, I agree with you 100%. In future, successful businesses in this part of the world will have significant intellectual property and significant R&D.

3022. I gathered from the last witness that risk-taking is intertwined with our attitude towards the importance of the economy and its priority in education. I agree that we have become exceptionally risk-adverse. One way of addressing that is to look at business start-ups as a portfolio in which the question is not about what has failed, but about whether the success percentage outcome is reasonable in response to the resources employed. Rather than microanalyse why two or three — or more — out of 10 businesses failed, we should say that three successes out of 10 is a perfectly reasonable return.

3023. **Mr Neeson:** There seems to be a contradiction in the figures. Why, when unemployment in Northern Ireland is lower than

in the rest of the UK, do we have the highest level of economic inactivity in the UK?

3024. I am worried about the amount of investment from Northern Ireland that goes to India, China and eastern Europe. What can we do to stem that flow and encourage investment to remain here?

3025. **Mr B Robinson:** Mike will talk to you about the categorisation of economic activity and inactivity.

3026. **Mr Brennan:** We have considered that contradiction: we have the fastest decline in unemployment in the UK in the past decade, and we are now below the UK average. That is unheard of for Northern Ireland.

3027. **Mr Neeson:** It was 20% when I was in the 1982 Assembly.

3028. **Mr Brennan:** It is now 4·5%, which is phenomenal. However, the figures show a shocking increase in inactivity, as many more people register for welfare and inactivity benefits. There is a close correlation between the drop in the unemployment figures and the increase in those claiming benefits.

3029. That is not unique to Northern Ireland, and the Government are considering the problem nationally. How do we motivate people to get back into the workforce? Several pilot schemes, such as Pathways to Work, are trying to address that issue. There is an issue about labour market signals trying to encourage people to re-enter the active workforce — and I stress the words “active workforce”.

3030. On one level, it is encouraging that the official unemployment rate is low, but if we look beneath the surface, we may be discouraged.

3031. **Mr B Robinson:** I might engage in a philosophical debate on your point about the flow of investment out of Northern Ireland being bad. Certain activities are no longer viable in Northern Ireland. Business in Northern Ireland has a choice about whether it stays astride the market that it has won, and the only way that it can do so is by finding lower-cost production. I know that that is difficult, and it raises questions in everybody's mind.



3032. However, it is an indication of the progress of much of Northern Ireland business. It chose to keep its markets and to develop the management capability either to run significant operations remotely, or to source crucial parts of their products. When Moy Park Ltd first went to France and Brett Martin Ltd bought operations in Holland — that was about 15 years ago — I would have described that as a hallmark of the success of Northern Ireland business. The dynamic of globalisation is such that that must continue. I accept that it runs counter to what one would feel instinctively.

3033. We may have moved beyond the point where unemployment should occupy a lot of our thinking on economic development and progress in the Northern Ireland economy. It is a very long time since unemployment here was worse than the UK average. One of my concerns is that, not intentionally but unwittingly, we all carried the burden of unemployment for too long in our economic policy development and policy-making. If you look at the convergence of performance, the Northern Ireland economy has been significantly driven by a growth in employment; however, it has not grown in terms of value added. We solved what we saw as the biggest single problem, but there is a danger that we are continuing to solve it to our detriment in the next stage, which is to climb up the value-added chain.

3034. **Ms Ritchie:** Welcome, gentlemen. I have two questions. How would DFP support and move forward the four drivers of productivity when Northern Ireland is a peripheral region?

3035. In his announcement about the Review of Public Administration last November, the Secretary of State referred to — and you referred to the same issue in your presentation — the overemphasis on the public sector and the need for the private sector to develop. Is there not a problem in that the private sector is mobile and could move out of Northern Ireland and locate elsewhere, particularly in low-cost economies, thereby undermining what we are trying to do in the first place?

3036. **Mr B Robinson:** With regard to the second point, that is the reality that we face anyway.

3037. These are open economies, and quite apart from business, labour is totally mobile. Therefore, that is one significant change that the subgroup will have to wrestle with. A recent phenomenon in Northern Ireland is that increased numbers of people from other parts of the EU have come into its employment market. The die has been cast for the mobility of business and people.

3038. Why do people want to live here? Evidence shows that many people want to live and work in Northern Ireland, and Government must create a society that provides them with the opportunity to do that. The service industry is important, and the last thing that I want is for this to become a manufacturing industry versus service industry argument. I will use an analogy: a well-known former chairman of the IDB — members can guess who he was — said that once the railways were expanded, there would be no future in building stagecoaches. That is the difficulty for Northern Ireland. Its people are having to learn how to live in a post-textile-industry world. I did not think that I would ever say this, but the textile industry is not particularly important to Northern Ireland now. I do not say that with any delight: I am merely recognising reality.

3039. If Northern Ireland did not have manufacturers such as Wrightbus Ltd, which have invested significantly in intellectual property and conduct high levels of R&D, I do not think that there would be a manufacturing industry. However, that is not to suggest that that would be the end of the world as we know it. Northern Ireland is operating in a different world and environment. Nowhere else in the world has 100% broadband access: Northern Ireland does. The future is about maximising the available economic benefits.

3040. **Ms Gildernew:** Gentlemen, you are very welcome. Forgive my cynicism, but you mentioned unemployment figures from 20 years ago. Those figures might be more relevant had Maggie Thatcher and the current Administration

not massaged them to ensure that rather than being termed “unemployment” figures, they are known as “inactivity” figures.

3041. Although fewer people are recorded as unemployed in Northern Ireland, there is much hidden unemployment. It is known as “inactivity”. Some of the people listed on those records are inactive because of barriers to work, which include a lack of affordable childcare, lack of support and care for disabled and elderly people from the Health Service, and unrealistic travel-to-work times. Constituents of mine have been made redundant three and four times and have very little hope of getting the same type of employment.

3042. You mentioned the four drivers of productivity, which include skills and infrastructure. It must be accepted that the lack of infrastructure — roads infrastructure, in particular — has had a huge impact west of the Bann. On skills, the technical colleges and further education colleges in the Twenty-six Counties are successfully contributing to the economy. Projects such as the Young Scientist of the Year have interested young people in their third and fourth years at school in science, and that may encourage them to study science and mathematics on a vocational level, as opposed to furthering their academic studies. Perhaps, in the past, academic study, rather than vocational training, has been overly promoted.

3043. Would DFP agree that more resources should be diverted from the academic sector to vocational training? Does more need to be done to remove the barriers to the work? What should be done to improve the infrastructure west of the Bann in order that employment and an investment windfall can be generated?

3044. **Mr B Robinson:** Our submission contains information on road density, which underscores precisely Ms Gildernew’s point.

3045. Neither the Department nor I is responsible for developing economic policy; that is for DETI and DEL to formulate. In deploying resources to those ends, as opposed to extra resources, it is accepted that the emphasis on further education needs to be in the direction that Ms Gildernew has outlined. The

Economic Development Forum has achieved a great deal in producing a pretty solid consensus on the importance of that and of infrastructure.

*1.45 pm*

3046. The emphasis is more on creating the conditions in which businesses can thrive rather than on supporting individual businesses. We are seeing a switch from supporting individual firms to creating a wider environment of support. That is consistent with Dr McDonnell’s point about risk. Infrastructure is certainly important, both for how Northern Ireland is perceived globally and within Northern Ireland, if economic benefits are to be spread across the community.

3047. **Ms Gildernew:** What about barriers to work?

3048. **Mr B Robinson:** That presents a really difficult set of issues. When the regional development strategy was published five years ago, it recognised the challenges of providing employment in rural areas. The strategy tackled that issue pretty well by referring to the creation of significant hubs for employment throughout Northern Ireland, which seemed to be a good way to address this challenge. Broadband availability greatly reduces the handicap of distance and makes employment in rural areas of Northern Ireland much more viable. I completely agree that rural employment is very important.

3049. **Mr McElduff:** Does the Department of Finance and Personnel agree that the economic interests of the North would be better served by a different tax regime than that applied in England, Scotland and Wales? If so, is the Department arguing for a different tax regime?

3050. Does the Department see the merit or benefit of a harmonised, single-island approach to corporation tax? I realise that we have covered some of this territory, but these are more specific questions. What stands in the way of establishing an incentive for attracting FDI?

3051. **Mr B Robinson:** This issue has come up in a variety of guises. The Department’s job is not to argue for a particular tax regime or tax rate. Essentially, those are ministerial and political decisions. I understand why the

subgroup approaches the matter in that way, but I hope that it equally understands why the Department cannot approach it in that way. Those are significant political decisions that are very much in the remit of Ministers.

3052. **Mr Weir:** Thank you for your presentation. I will refer to two issues that have already been mentioned. I would appreciate it if you could provide more detail to the subgroup.

3053. My first point concerns economic inactivity rates. If the percentage of people in Northern Ireland on incapacity benefit is compared to the UK average, I agree that much of that is due to attempts by successive Governments to remove people from the pure unemployment figures towards other benefit figures so that the headline unemployment rate will not seem as bad.

3054. Inactivity rates have previously been highlighted to the subgroup, and I found your graph quite useful in that regard. There was a general reference from either DEL or DETI — whichever Department issued the figures — to the higher number of students featuring in the economic inactivity figures.

3055. Leaving aside the issue of mismatched skills and considering the broader economic value, a higher number of economically inactive students could be described as good working age inactivity, in that students represent a longer-term investment, whereas higher economic inactivity among other sectors of the working age population is obviously damaging to the economy.

3056. I want to take on board what was said about potential barriers to work. You have produced a differentiation for the student element of inactivity, but it would be useful to have some analysis and more detailed figures for the remainder of the inactivity rates. We know the figures for the unemployment element, but how much of the recorded inactivity is due to increased numbers of people receiving incapacity benefit, people on carer's allowance, or people who have to remain at home because they cannot afford to pay for childcare? If we could see a more detailed set of figures, showing where the comparisons lie, our eventual recommendations

could, I hope, ensure that people get back into employment.

3057. I appreciate that rather than your giving the subgroup an answer now, it would be better for you to supply us with figures in writing.

3058. **The Chairman (Mr A Maginness):** Some of those figures are listed in the "Economic Inactivity" section of the DETI paper.

3059. **Mr Weir:** I do not have that paper with me, but I think that some of those figures are listed in it. It would be helpful to see the full set of figures.

3060. **Mr B Robinson:** If we can add to that analysis, we will do so.

3061. **Mr Weir:** I agree strongly with Alasdair McDonnell's comment that it seems that many Departments, at various levels, are involved in matters concerning the economy, but no one Department seems to be — for want of a better expression — in overall control. There is a concern that public expenditure decisions, particularly those that affect the economy, and which have implications for other Departments, can be made by DFP, DEL, DETI and, to some extent, DSD.

3062. I am concerned because when the subgroup quizzed officials from DETI, we found — and correct me if I am wrong — that that Department does not seem to have input into DRD's decisions on roads announcements. Irrespective of whether announcements are right or wrong, if a major infrastructure project is announced, which will affect the economy, it is natural to be concerned if the lead Department has not sought input from any of the other Departments.

3063. Can you reassure members on what changes have been made to guarantee greater financial co-ordination between Departments to ensure that when public expenditure is being agreed, it is either driven by, or takes cognisance of, the effect that its allocation will have on the economy? Have Government made any changes to provide a greater degree of co-ordination?

3064. **Mr B Robinson:** The work of the Economic Development Forum (EDF) is

bringing about greater financial co-ordination. The drivers that have emerged from the EDF's work point clearly to infrastructure. DRD representatives attend the EDF, as do DEL officials on the skills side. Initial steps have been taken, but I quite happily concede that they are the first steps to draw this together. The points made by members are important, and more work needs to be done.

3065. There is interaction between DARD and the EDF, and DETI, Invest Northern Ireland and the tourism agenda also come together strongly. Mr Weir is quite right: inevitably, when several Departments are involved, issues can be disaggregated, and there is the danger of their not getting sufficient strategic input.

3066. **Mr Weir:** Briefly, the roads issue is one example. It is clear that, in economic terms, Government realise that infrastructure is a problem and that there is a need to invest in roads. However, how much input is there in the individual decisions on which roads get the money? At the very least, there needs to be some input into deciding how best the money could be spent to benefit the economy and Northern Ireland directly.

3067. **Mr B Robinson:** Economic benefits are factored in when the cost-benefit analysis and the detail of the projects are being worked on. However, I took your question to be referring to strategic inputs. For example, a significant input would be the Westlink's impact on the port.

3068. **The Chairman (Mr A Maginness):** Thank you for your contribution; it has been very helpful. Many questions remain, but that is part and parcel of politics. I look forward to dealing with you in a different format in the near future.

3069. **Mr B Robinson:** Thank you.

3070. **The Chairman (Mr A Maginness):** Before everybody departs, we must deal with a written submission from the Freight Transport Association. We are waiting for further information from DETI.

3071. **The Committee Clerk:** The Department has sent that information. It will be of particular interest to Mr Weir because it breaks down rates

of inactivity into "Student", "Family/home", "Sick/disabled", "Retired" and "Other", which is very useful. We did not ask for all that.

3072. **The Chairman (Mr A Maginness):** Dr Birnie mentioned Mr Graham Gudgin. His office has been contacted. A written submission will be forwarded, and I hope that we will be in a position to receive that. The article that appeared in 'Fortnight' has been tabled.

3073. There is a draft press release, to which there are some minor amendments. I hope that we can agree to that being published.

3074. **The Committee Clerk:** I have added in some of the key points that witnesses made that were not clear in their submissions. For Eric Reid I have added: "Mr Reid highlighted the challenge posed by the global market and the need to develop a strategy for agriculture that equips it to compete effectively in the global market."

3075. For Clarke Black and the Ulster Farmers' Union, I have added "and renewable energy", but I have also said that they "support the provision of ongoing financial support from Europe rather than an entirely free-market approach" and that they noted that a focus on research and development was the way forward for the industry.

3076. For Mr Bruce Robinson I have added: "Mr Robinson noted that the Northern Ireland economy currently operates within a unified UK tax regime and that the subgroup would need to examine the relative merits of the options that might be available to improve fiscal incentives."

3077. If you are content, I will add that to what is already there.

3078. **Mr Weir:** Obviously, there are also two changes to the list of members attending.

3079. **The Committee Clerk:** Yes: Margaret Ritchie and Lord Morrow instead of Alex Easton and John Dallat.

3080. **The Chairman (Mr A Maginness):** OK. That is agreed. The next meeting will be on Thursday 10 August.



3081. **Ms Ritchie:** Will we be able to consider the written submission from the Freight Transport Association on 15 August?

3082. **The Committee Clerk:** As we have an extra week, we have slotted in a written evidence session. Paul Moore has been asked to write a paper summarising all the written evidence that has been gathered up to that point. I have asked him to pay particular attention to where it agrees — or not — with some of the oral evidence that we have heard.

3083. **Ms Ritchie:** The submission from the Freight Transport Association is a thought-provoking one. It points to the peripherality of our region. Mr Robinson did not answer my question about how we address that, despite the four drivers for productivity. Better transport links is one of the main issues, but he did not answer that.

*2.00 pm*

3084. **The Chairman (Mr A Maginness):** That is a matter for critical comment at an appropriate point.

3085. **Mr McElduff:** I welcome the additional information from DETI on inward investment in Fermanagh and Tyrone.

3086. **The Chairman (Mr A Maginness):** The next meeting will be on 10 August and will include the final oral evidence sessions, with the Northern Ireland Tourist Board, the Economic Research Institute of Northern Ireland and the Northern Ireland Council for Voluntary Action.

3087. **The Committee Clerk:** If we get a positive response from the Northern Ireland Youth Forum, it will also be here.

3088. **Mr Weir:** I will not be at that meeting, but somebody will represent me.

3089. **The Chairman (Mr A Maginness):** There is no further business. The subgroup will now adjourn.

*Adjourned at 2.01 pm.*



## Thursday 10 August 2006

### Members:

The Chairperson, Mrs Naomi Long  
Dr Esmond Birnie  
Ms Michelle Gildernew  
Mr Kieran McCarthy  
Dr Alasdair McDonnell  
Mr Barry McElduff  
Mr David McNarry  
Lord Morrow  
Mr Sean Neeson  
Mr Robin Newton  
Ms Margaret Ritchie

### Witnesses:

Mr Alan Clarke	}	Northern Ireland Tourist Board
Mr Tom McGrath		
Ms Sue Ward		
Mr Victor Hewitt	}	Economic Research Institute of Northern Ireland
Mr Seamus McAleavey		
Ms Frances McCandless	}	Northern Ireland Council for Voluntary Action
Dr Peter Gilleece		
	}	Senior Research Officer, Northern Ireland Assembly

*The subgroup met at 10.06 am.*

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

3090. **The Chairperson (Mrs Long):** I remind members to turn off their mobile telephones, as, even in silent mode, they interfere with the recording system.

3091. Apologies have been received from Peter Weir; Lord Morrow attends as his substitute; Barry McElduff is the substitute for Mitchel McLaughlin; Robin Newton is the substitute for Ian Paisley Jnr and Kieran McCarthy is the substitute for David Ford. Sean Neeson has indicated that he will be late.

3092. Are members content with the draft minutes of the meeting of 8 August?

*Members indicated assent.*

3093. The next item on the agenda is matters arising. The first issue relates to the infrastructure package. The Strategic Investment Board (SIB) has provided a breakdown of the £16 billion infrastructure package

3094. **The Committee Clerk:** Members received that yesterday.

3095. **The Chairperson (Mrs Long):** The next matter arising concerns procedural advice. Formal procedural advice has been sought from the Preparation for Government (PFG) Committee on substitute members, chairing future meetings of the subgroup and whether members of the PFG Committee, who also sit on the subgroup, may nominate a substitute for the subgroup in order that they may attend the PFG Committee.

3096. The response is in line with advice given by the Principal Clerk at the last meeting. The PFG Committee has no difficulty with substitutes attending the subgroup in place of members of the PFG Committee or with substitutes chairing subsequent subgroup meetings. That takes into consideration the need for substitute members to cover holiday arrangements. Are members content?

*Members indicated assent.*

3097. The third matter is evidence. As agreed at the last meeting, Dr Graham Gudgin has agreed to produce a written submission to the subgroup by the middle of next week. As previously discussed, the Clerk contacted the Youth Council for Northern Ireland with a view to its giving evidence. He was referred to the Northern Ireland Youth Forum. Several attempts have been made to follow this up, but no response has been received, as all the major players on the forum are currently on leave. I suspect that we cannot progress this matter.

3098. **Mr McNarry:** That is disappointing. I understand, and accept, that holidays will have an effect. It is unfortunate that we cannot hear

the voice of young people whose futures we are discussing.

3099. We would get into trouble if we approached some schools but left out others. Could the subgroup do some further head-scratching to find a way to hear a legitimate voice that represents young people? The consensus is that that would be useful. However, I fully understand the difficulties.

3100. **The Chairperson (Mrs Long):** I would welcome any alternative suggestions that members may have at this stage so that we can proceed

3101. **Lord Morrow:** Will Graham Gudgin be submitting a paper instead of making a presentation in person? Why is he submitting a paper rather than appearing in front of the subgroup?

3102. **The Committee Clerk:** His contribution was a late addition to the agenda, and a written submission was the only viable option. He is on leave at the moment, but he was able to take an hour to prepare the paper. I have asked for it by Wednesday of next week, if that is possible.

3103. **Lord Morrow:** He was not to come here to make a presentation?

3104. **The Committee Clerk:** No, that was never formally required of him.

3105. I tried to contact the Youth Forum several times, and I received a written response from its chief executive, David Guilfoyle, but, to be frank, it did not cover the issues.

3106. **Ms Gildernew:** Chairperson, there is a Fermanagh Shadow Youth Council, based in Enniskillen. I know it is short notice, but contacting it may be an option.

3107. **The Chairperson (Mrs Long):** There is also a shadow youth council in Belfast, but the difficulty is that many of the members of those groups are on leave from school and difficult to contact. It is more the timing that is the issue, rather than their interest in the subject matter.

3108. **The Committee Clerk:** I was advised by David Guilfoyle that some young people had been involved in holding a mock Assembly plenary as part of the education process. They

would certainly have been interested if time had permitted, but, regrettably, it did not.

3109. **The Chairperson (Mrs Long):** The third issue in relation to evidence is —

3110. **Mr McNarry:** Sorry, but I have just had a thought. As regards the timing, the subgroup has been granted a week's extension, so the schools may be back by then. There would be no gap.

3111. **The Committee Clerk:** The extension gives us only until 25 August to prepare our report. Today's session will be the last oral evidence session. On Tuesday there will be a great deal of written evidence.

3112. **Mr McNarry:** May I make a suggestion rather than a proposal? This matter could be referred to the PFG Committee, which will consider the subgroup's report. As it has some extra time available to it, it may think it worthwhile to hear a young person's perspective.

3113. **The Committee Clerk:** Although a vote was not taken, members have said that they would be interested in extending the work of the subgroup, subject to the PFG Committee being content and a work programme being agreed. The subgroup could well consider this after 25 August, if it so wished. It is for the subgroup to determine whether it wants to work beyond the dates on the current agenda and to ask the PFG Committee to agree that. There is certainly scope to do that.

3114. **Mr McNarry:** If the subgroup's report is to be debated in the Assembly, it would only be correct for young people's views to be represented in some way. I would be grateful if some room could be created, by any means — even through the PFG Committee — to hear their voice.

3115. **Mr McElduff:** I just want to clarify that it will be the PFG Committee, rather than the subgroup, that will deliberate on whether an Assembly debate will be held.

3116. **The Chairperson (Mrs Long):** Mr McNarry, are you making a formal proposal that the matter of youth representation should be referred to the PFG Committee?



3117. **The Committee Clerk:** Chairperson, the difficulty is that the Secretary of State has set the PFG Committee a deadline for the debate. The subgroup was granted an extension because the PFG Committee was granted a one-week extension for that debate. There is no further scope, unless the Secretary of State is prepared to delay the debate, which is intended to take place in the week beginning 11 September.

3118. **Mr McNarry:** Barry McElduff is technically right in that all the reports have to be endorsed and agreed, submitted to the Business Committee and then referred to the Secretary of State to let him know the matters on which we would like a debate.

3119. The Committee has been granted an extension — the first plenary sitting will now be on 11 September — so I am trying to factor that in. Our report will, in effect, come under the ownership of the PFG Committee. If there is an opportunity to hear the voice of young people, we should strive to do that, through the PFG Committee if necessary.

10.15 am

3120. **The Committee Clerk:** We are content to speak to anyone in that area, if we can get contact details, and to obtain written submissions from them. The difficulty is producing the report in the time frame. We are open to suggestions, and we will facilitate that, wherever possible.

3121. **The Chairperson (Mrs Long):** Perhaps members should give that some thought. Formal proposals could be made at the next meeting on how to take that forward

3122. **Mr McNarry:** I propose that we seek advice from the PFG Committee on how to deal with that, with a view to hearing the voice of the young people, which would enhance the completion of the report.

3123. **Mr McCarthy:** I second that; it is important.

3124. **The Chairperson (Mrs Long):** Is there agreement on that?

*Members indicated assent.*

3125. **The Chairperson (Mrs Long):** We have three sets of witnesses today, and we have

allocated approximately 45 minutes for each set, rather than one hour. That will allow Dr Gilleece to present his research paper, which has been tabled for the end of today's evidence sessions.

3126. We have received additional information, requested by the subgroup, from witnesses who have recently given evidence. That includes: the Industrial Task Force's submission on regional tax variations in EU countries; further papers from the SIB on investment delivery framework, roads package 2, slippage in capital projects, and estimated savings in SIB-supported projects — copies of SIB's recently published annual reports and accounts are also included for reference; an outline of the Department of Enterprise, Trade and Investment's (DETI) foreign direct investment (FDI) research project; a summary of research findings from the project assessing the case for enhanced research and development (R&D) tax credits in Northern Ireland; and an assessment of the economic impact of changes in the levels of inward investment.

3127. **Mr McNarry:** Ivan McCabrey's submission from Mivan has not been included under the heading of "Written Submissions".

3128. **The Committee Clerk:** I received it late last night.

3129. **Mr McNarry:** Are members being asked to accept it?

3130. **The Committee Clerk:** The subgroup requested the submission.

3131. **Mr McNarry:** Yes, but are members being asked to accept Mivan's submission on this agenda?

3132. **The Committee Clerk:** Yes.

3133. **Mr McNarry:** I read the submission quickly. Mr McCabrey makes a point about what the Chancellor said during his visit to Belfast on 19 June. He says that he invited the Northern Ireland Business Alliance and elected politicians to produce a submission in respect of the challenges facing the economy. He went on to say that he has concerns about what we are doing. Perhaps the subgroup should tease that

out, as Ivan McCabrey is nobody's fool. He has identified a couple of weaknesses in what we are doing, and we should address those. At our next meeting, we should examine his concerns in detail, because he has gone to the trouble of stating them in his letter.

3134. **The Chairperson (Mrs Long):** The meeting of the economic subgroup on Tuesday 15 August has been set aside for the consideration of written evidence. All written evidence, including that letter, will be probed in more detail at that meeting.

3135. If we can move on, item 5 of the agenda is written evidence, so it follows on from the discussion we are having.

3136. Additional written evidence has been submitted by the International Centre for Local and Regional Development, the office for innovation and enterprise at the University of Ulster, UUTech LTD, the Planning Service, Northbrook Technologies and Action Renewables. Mivan's submission has been tabled today, and the University of Ulster has referred to a report named 'The economic impact of UK higher education institutions', which has also been tabled for members' information. Both QUBIS and the Association of Northern Ireland Colleges have indicated that they cannot meet the initial deadline but may submit written views later in the month. A response from Tourism Ireland is expected later today.

3137. Analysis of these submissions will be undertaken at next Tuesday's meeting, and in that respect it is important that members reread all the written evidence that has been submitted to date so that they are au fait with the issues and can enter into detailed discussion.

3138. Do members wish Tuesday's meeting to be held in open or in closed session? The subgroup has already agreed to have an open session where possible. Perhaps members can indicate whether they are content for that to be the case on Tuesday.

3139. **Mr McElduff:** I propose that we have an open session.

3140. **Ms Ritchie:** I second that.

3141. **The Chairperson (Mrs Long):** Is that agreed?

*Members indicated assent.*

3142. **The Committee Clerk:** If members are sending substitutes to the written evidence session, please make sure that they are provided with all the necessary papers. I have asked Paul Moore to present a paper on the written submissions which will summarise them and draw out the links with oral evidence. As Mr McNarry points out, written evidence is equally important, and it would be easy for us to ignore it because it is a paper hidden in a file.

3143. **The Chairperson (Mrs Long):** Item 6 on the agenda is press cuttings. Recent press articles relevant to the subgroup's terms of reference are included for members' consideration.

3144. Item 7 is this morning's evidence session. Before I call the witnesses in, I remind members that we are now going into open session. There are three sets of witnesses, and each set is allocated 45 minutes. It would be helpful if members could keep their questions to witnesses brief and focused on the terms of reference.

3145. On behalf of the subgroup, I welcome the witnesses from the Northern Ireland Tourist Board (NITB). Thank you for agreeing to attend at rather short notice.

3146. Please ensure that your mobile phones are turned off — even in silent mode they can interfere with the recording equipment. We have 45 minutes for this session. Please keep your initial presentation to the subgroup as brief as possible, at around 10 minutes, without taking anything away from your evidence. That will allow for questions and answers at the end.

3147. Alan Clarke, Tom McGrath and Sue Ward, I invite you to begin your presentation.

3148. **Mr Tom McGrath (Northern Ireland Tourist Board):** I am Tom McGrath, chairman of NITB. I am very pleased to have this opportunity to present and discuss, and we hope to be able to answer your questions. In the interests of the economy of time, I will pass you over to Alan Clarke.

3149. **Mr Alan Clarke (Northern Ireland Tourist Board):** Thank you very much for this opportunity to address the subgroup. Members have copies of our presentation, which is in PowerPoint format. I shall go through that presentation within our allotted 10 minutes.

3150. We have divided our presentation into three areas. First, I shall give an overview of the tourism sector's performance — how that sector is currently doing. Secondly, I shall turn to key issues, which I hope will address the first two points of the subgroup's terms of reference. Thirdly, I shall make some concluding remarks, which I hope will address the third point of the subgroup's terms of reference.

3151. Turning first to performance, slide 2 of the presentation shows the numbers of visitors to Northern Ireland. The overall trend is pretty healthy; there has been a rise from 1·5 million visitors in 1995 — which was a peak period because of the peace dividend in that year — to just short of 2 million visitors in 2005.

3152. The third slide shows tourism revenue from visitors between 1994 and 2005. That spending creates wealth in the economy. Again, the picture is very healthy. There has been a rise from about £180 million in 1994 to £357 million in 2005. Those figures reflect out-of-state spend. We have doubled our revenue within that 12-year period. The NITB's emphasis is now on revenue.

3153. Slide 4 shows some of the tourism performance highlights in 2005. Out-of-state spend was £357 million. Domestic spend by Northern Ireland people holidaying within the Province was £146 million, making a total spend from tourism of more than £500 million. The estimated number of jobs in the Northern Ireland tourism and leisure sector is 51,000, which is just short of 8% of all employment.

3154. Slide 5 shows some of the key trends during 2004-05. I shall highlight some of those trends as I go through the presentation. The Great Britain market fell by 7%, and the Republic of Ireland market rose by 6%. There was very high growth in both the European and North American market, reflecting improved direct-air access. However, those markets rose from an obviously much lower base.

3155. The bottom of slide 5 shows passenger-carrying figures. I should alert the subgroup that the passenger-carrying figures are for traffic both in and out of Northern Ireland. As part of an overall trend, that area is doing well, although sea traffic is doing less well than air traffic. That has been a trend over the last five years.

3156. The sixth slide shows the key trends for 2004-05 in the accommodation sectors. The hotel sector is particularly buoyant at the moment. In 2005, we sold 1·4 million non-resident bed spaces, representing a rise of 13%, year on year. Six months during 2005 attained record hotel occupancies since we began keeping records in 1973. Members should bear in mind that the capacity of that sector has doubled during that time.

3157. Slide 7 continues the commentary on the hotel sector. Hotel occupancy numbers are not the only important factor; profitability must also be considered. Results from ASM Horwath show that profit before tax and funding in the hotel sector is now bettered only by Dublin hotels. Increasing the yield, as well as the occupancy numbers, is vital. Confidence in the hotel sector is very high at the moment.

3158. Conversely, slide 8 shows that the guest-house and bed and breakfast (B&B) sector overall has declined over the last several years. That trend is not specific to Northern Ireland; it is also evident in the Republic and in Great Britain. That is a long-term trend. The self-catering sector is doing reasonably well, but it is less buoyant than the hotel sector.

3159. Our indications for the current year are that the accommodation sector is doing well. There is much optimism in the industry. We carried out a tourism barometer survey in June, and confidence in the industry is very high at the moment.

3160. I shall address some of the key issues facing the tourism sector. Slide 9 identifies seven issues, which I will address quickly, in view of the subgroup's time. I shall address one or two points on each key issue.

3161. Slide 10 concerns strategic leadership in the tourism sector. That sector is very

fragmented. Seven Government Departments have a prime interest in tourism, as do the 26 local councils. Getting everyone to focus on tourism priorities is not always easy. Our acid test is whether we can get people to focus on the signature projects that I will address in a few moments.

3162. Resourcing is important. The subgroup is no doubt aware that the tourism sector has lost Peace II funding. The last round of European funding ended on 31 March. Less money is likely to be made available during the new round of European funding. The International Fund for Ireland (IFI), which has been very supportive of the tourism sector, has now switched its priorities towards the social economy. Tourism is on the rise, and now is the time for long-term investment. It is much better to invest when on a growth curve than beginning to invest when the industry may be on a decreasing curve.

3163. Slide 10 mentions planning and sustainability. I will talk in more depth later about sustainability, but we must see the emergence of a new issue on how planning copes with the growth of tourism. I understand the constraints on the Planning Service, but we want it to proceed with the development of Planning Policy Statement 16 on tourism.

3164. As tourism grows, it is important for that work to be done in order to react to where growth is coming from.

*10.30 am*

3165. Private sector engagement is also important. Compared to the Republic, Northern Ireland tourism is a fairly immature industry. However, as the industry matures, it is important that the private sector has more ownership so that tourism can be driven forward.

3166. Slide 11 deals with global competitiveness and innovation. Over the past three years, there has been a growth in low-cost air access, which brings people into Northern Ireland and also takes people out. Since the accession states joined the European Union, we are trading in a much more competitive environment. There are immense choices in our major markets, whether that be Great Britain or

the Republic of Ireland, where consumers can go for short breaks, longer holidays or to conferences. The industry must start to think about that competitive world and global trading, especially where standards are concerned and in sales and marketing activities. The NITB advocates that the sector needs tourism-specific capability support. For example, our competitors in the Republic and in Scotland have specific programmes that support the tourism sector. That is a priority for Northern Ireland.

3167. Slide 12 deals with signature projects. The subgroup is aware that the NITB has five such projects. Those capital projects are important in driving long-term tourism growth. Air access to Northern Ireland has improved dramatically over the past two years. However, that must be backed up with improved public transport because people flying in on low-cost airlines will want to use public transport.

3168. Cities in Northern need to examine their conference facilities for the long term. Over the past five to 10 years, conference business in Belfast has been especially good. It is a high-spend business that usually happens out of season. However, in four to five years' time, new venues will come on-stream in Dublin, and Belfast will no longer be as competitive. Increasingly, conference organisers want exhibition facilities to be close to conference venues.

3169. With regard to the rural economy, golf could achieve international standout for Northern Ireland. There is a strong private-sector interest in developing golf resorts. NITB research findings state that we should have an aspirational approach to golf tourism. Some of those projects must be realised over the next three to four years.

3170. Slide 13 deals with skills. Although skills are not directly part of NITB's remit, we need to drive that element forward. Skills provision is hugely fragmented. Organisations and agencies such as the NITB, Invest Northern Ireland and the Department for Employment and Learning (DEL) are the prime drivers of skills development. The new UK-wide sector skills council, People 1st, is working on a human resource development strategy for the



industry. It is important that those soft elements of tourism growth are given due attention and resources.

3171. Immense progress has been made with Northern Ireland's international image. That requires more work to move Northern Ireland from its current status as a discovery destination; that status can exist only for so long. Signature projects are vital to achieving a long-term brand position.

3172. Slide 14 deals with our closer-to-home markets, which are important to Northern Ireland tourism. The Great Britain market is important, but it is very fragile at the moment because people there have the option of low-cost air access. The market in the Republic is also important, and it is probably our sleeping giant. If the NITB had the resources, much more could be done with the Republic of Ireland market.

3173. Sustainability is a key issue. The NITB has developed the signature projects on the basis of authenticity. Northern Ireland went through a period of plastic heritage, and the NITB is now concentrating on real heritage, which future customers will want. The Titanic/Maritime Heritage project, the Giant's Causeway, the walled city of Derry and our Christian heritage/St Patrick are centred on authenticity. Northern Ireland can achieve international standout with those projects.

3174. The environment is a key asset in driving tourism forward. Tourism can give the economy more organic, long-term growth; it will not be here today and gone tomorrow. The growth will be slower, but long-term investment will give a long-term return.

3175. Slide 15 deals with point 3 of the subgroup's terms of reference — an economic package/peace dividend. We have had five years of strong growth, and now is the time for long-term investment. Tourism requires investment to allow that growth curve to continue in an upward spiral. For tourism, the peace dividend has already kicked in, but there is further potential and more opportunities to be realised. In the short term, tourism projects will not always give

the same direct return as other sectors of the economy.

3176. Tourism projects must be looked at in the long term. Their wider economic benefits must be considered. The criteria by which economic projects are assessed need to have a long-term perspective.

3177. Tourism's role in economic growth is gradually being realised, but we probably still lack the focus on tourism's contribution to the economy that they have in the Republic of Ireland, or Scotland. For example, Scotland has identified six industry groups, of which tourism is one, that will drive the future of the Scottish economy. In Northern Ireland, we do not yet have that degree of focus to identify the key industrial sectors, including tourism, that will grow the economy.

3178. We have put most of our effort into developing infrastructure and skills. There will still be a need for direct financial intervention in the event of market failure, but if we can get the infrastructure right through our signature projects and get the skills base right, we can drive tourism growth here.

3179. One of the signature projects that has been a success has been the walled city of Derry project. That was partly because we had dedicated funding; we were able to bid for funding from the integrated development fund to get that project up and running. We have had to put together a cocktail of funding for most of the other projects, and that takes time. I would advocate programme funding — not necessarily tourism programme funding, but economic programme funding — so that good-quality tourism projects can bid for it and get their projects moving to a much higher degree.

3180. **The Chairperson (Mrs Long):** I ask members to be as concise as possible, in order to allow for the maximum exchange of information.

3181. **Dr Birnie:** I have three quick questions.

3182. First, you said that profitability was improving, but still lower than in Dublin. Given our interest in corporation-tax rates, can you amplify those comments?

3183. Secondly, it is an oft-made comparison that our tourism industry contributes perhaps 2% to our gross domestic product (GDP), compared with 6% or 7% in Scotland and the Republic of Ireland. Can you confirm the accuracy of those figures?

3184. Finally, how is responsibility for promoting the Province as a tourist destination divided between NITB and Tourism Ireland Ltd? How does the relationship between the two organisations work? Is there duplication?

3185. **Mr A Clarke:** Hotel profitability has improved in the last three years. The figures that I have given you are from the ASM Horwath annual report on the hotel sector in Northern Ireland and the Republic. Three years ago, hotel profitability was about 16%; it has since risen to 19%.

3186. We have improved our position on the island of Ireland. Three or four years ago, hotels were only interested in getting bums on beds. They are still interested in that, but now they are interested in getting the right rate as well. They have been able to lever their rates for a mix of leisure and business tourism. In Belfast especially, conference and business tourism have been secured at a higher rate. Therefore, hotels have improved their profitability in that time. It is a sign of the industry's maturing that it focuses more on yield than on numbers.

3187. We no longer use GDP. We went through a stage of using gross value added (GVA), and we are now doing some work on tourism satellite accounts. That work will be completed in the next couple of months. When we did use GDP, tourism's contribution to the economy was about 1.82% in Northern Ireland, about 4.4% in the Republic, about 5% in Scotland and about 7% in Wales.

3188. Tourism Ireland's role, as set out in the Good Friday Agreement, is to market the island of Ireland, including Northern Ireland, in Great Britain and overseas. It has become the international marketing organisation for the island, so where NITB previously had overseas offices in, for example, Frankfurt and New York, Tourism Ireland now runs those offices. We have tried to switch our role much more

towards complementing Tourism Ireland by getting the product right. In simple terms, NITB's role is twofold: it markets Northern Ireland on the island of Ireland, and it is geared more towards visitor experience and getting the product right.

3189. **Dr Birnie:** Who markets Northern Ireland in Great Britain?

3190. **Mr A Clarke:** Tourism Ireland markets Northern Ireland in Great Britain and overseas.

3191. **The Chairperson (Mrs Long):** I know I have been stressing brevity and conciseness, but would you mind speaking slightly more slowly, in order for Hansard to ensure that everything is included in the evidence that is collected?

3192. **Ms Ritchie:** My constituency of South Down is home to two of the five signature projects in NITB's strategic framework for action: Christian Heritage/St Patrick and the Mourne National Park. I realise the importance of tourism as a principal industry in the area and the need to drive further growth in tourism, and I note Mr Clarke's reference to the need for economic programme funds. What discussions have taken place with central Government, and what further discussions are planned? What was the outcome of any discussions that have taken place on the possibility of further economic development and a regeneration package?

3193. **Mr A Clarke:** In a way, no direct discussions have taken place. The five signature projects are vital to driving the long-term growth of tourism. As they are priorities, the signature projects require capital investment.

3194. To go back to the last question: when our product is marketed internationally in an all-Ireland context, it is vital that visitors to Ireland be given reasons to travel to Northern Ireland. The five projects are designed very much to make Northern Ireland stand out internationally.

3195. An advantage that Northern Ireland has is that the five signature projects, which could be world-class, are situated within a reasonably small geographical area. Therefore, for people who come to Northern Ireland on short holidays or to attend conferences, there are five major

draws, and, on top of that, there are real reasons for visitors to spend more time and money.

3196. Funding for the Mourne National Park and Christian Heritage/St Patrick was mentioned. NITB is seeking funding in two ways: the comprehensive spending review and European programme funds. Our initial case to the comprehensive spending review was that the tourism sector requires more investment. It has long-term growth potential, and the five signature projects are vital to achieving that. NITB believes that more money from the comprehensive spending review needs to be directed at tourism. NITB has had a first cut at identifying the resource requirements for each of the five signature projects. Our submission to Government outlined what, at this stage, we believe to be the resource requirements for each of the five signature projects.

3197. The next round of European programme funds for 2007-13 probably links more to the Mourne National Park than to Christian Heritage/St Patrick. Obviously, through its links with the Cooley peninsula, the Mourne National Park has cross-border potential. Therefore, in its capacity to drive sustainable tourism and to develop cross-border links, NITB would like the Mourne National Park to be one of the priorities in the 2007-13 round.

3198. **Mr McNarry:** These questions are on a need-to-know basis. People are concerned that the all-Ireland approach to tourism has led to Northern Ireland's losing its marketing importance. Is that approach an impediment to developing our economy? What constitutes a visitor to Northern Ireland's attractions? I was taken by the interest that you expressed in golf tourism in rural communities. Do you mean specific courses for tourists, developed by public authorities?

3199. **Mr McGrath:** As regards the marketing of tourism in Northern Ireland, NITB has some concerns about Great Britain, which is a different type of market in that it tends to be segmented. Tourists from Great Britain are very aware that there are two pieces to Ireland. Sometimes NITB feels that generic marketing of the island of Ireland may not help the Northern Ireland

tourism market. Mr Clarke and I sit on the board of Tourism Ireland, and we have made those comments at its meetings.

3200. The Great Britain market is vital to Northern Ireland. Tourism Ireland's marketing strategies seem to have more success the further they are targeted from these islands. We worry, as do our colleagues in Fáilte Ireland, that only people from distinct areas of Great Britain tend to visit either Northern Ireland or the Republic. Northern Ireland successfully attracts visitors from Scotland and the north of England, while people from Birmingham, Manchester and the London area tend to visit the Republic.

3201. **Mr McNarry:** There is evidence that offices in the United States do not employ people from Northern Ireland and that potential tourists who are looking for a holiday in Northern Ireland are only told about the Republic of Ireland. There is a bias, and I wonder if it has been addressed.

*10.45 am*

3202. **Mr McGrath:** We cannot address that point, Mr McNarry. If what you are saying is true then only Tourism Ireland Ltd can address it, because it has representatives in the United States. We have no representatives there.

3203. **The Chairperson (Mrs Long):** Mr Clarke, would you pick up on what constitutes a visitor, and then on golf tourism?

3204. **Mr A Clarke:** There are a couple of definitions. First, a "visitor" is someone who comes to Northern Ireland for any purpose. Secondly, we have three categories of "tourists" — and they must include an overnight stay. The first comprises people who are engaged in leisure — largely holiday and recreation visitors. The second comprises people who are engaged in business — and the bulk of our interest, as I said earlier, is in the conference and meetings market. The third comprises the "visiting friends and relatives" market. The last group is very important to Northern Ireland tourism; it makes up over 40% of our visitors.

3205. Ten years ago, people whom we would term "visiting friends and relatives" did not use accommodation. Increasingly, they are now doing so, and they are spending money in

restaurants and in retail outlets. They are an important sector in our economy, and they are being driven by low-cost air access. The sector is quite buoyant.

3206. We did some work a year or so ago looking at the future of golf tourism in Northern Ireland. The top-line conclusion was that if we wanted to pursue an aspirational golf tourism strategy, we would have to realise two or three golf resorts. They would be very much geared to the visitor, and we would be likely to increase our numbers much more substantially than by trying to negotiate with golf clubs, which have to service their members as well as visitors. Experience in Scotland, Wales and the Republic of Ireland shows that Northern Ireland has a much lower proportion of golf resort developments with good-quality golf courses. Our thrust has been to try to achieve three or four of those. We have got one across the line this year, which is Castle Hume in County Fermanagh, a new hotel with a new adjoining golf course. We would like to get another one across the line — certainly through the planning and financial commitment stages — this year.

3207. **Mr McNarry:** Could I recommend somewhere in Strangford?

3208. **Mr A Clarke:** I am sure you could, especially if you have an investor tied to it.

3209. **Mr McNarry:** We will have to work on that, Kieran.

3210. **Mr McCarthy:** Ballygowan, or the Ards Peninsula.

3211. **Mr McElduff:** Go raibh maith agat, a Chathaoirligh. Are there any positives accruing from Tourism Ireland's marketing of the island as one entity? There has been a lot of emphasis on competition and on things not working out. I would like to hear whether there are any positives.

3212. If there were to be a special economic package, or peace dividend, how would it contribute to a growth in tourism and how could it be delivered?

3213. **Mr A Clarke:** It has not been our intention to be negative about Tourism Ireland. It has given Northern Ireland a greater presence

overseas, with regard to the number of offices. One of the biggest successes has been what we call "destination public relations", which involves getting travel writers to come here.

3214. **Ms Sue Ward (Northern Ireland Tourist Board):** We work very closely with Tourism Ireland to identify travel writers and tour operators. One of the most important aspects of delivering a positive reputation for Northern Ireland is getting it into print in the travel magazines. Last year, that delivered a PR equivalent value of £10 million to Northern Ireland. It is very much a combined effort between Tourism Ireland, which gets travel writers and journalists into Northern Ireland and covers their travel costs, and NITB, which picks up the cost of looking after them on the ground and making arrangements for them while they are here. We work really closely together on that, and it is delivering very positively for us.

3215. **Mr A Clarke:** Our answer on the economic package goes back to my comments on infrastructure and skills, which I feel are the two key areas. On infrastructure, it would be useful to have an economic programme to which tourism could bid for capital projects. Scottish Enterprise already operates such a programme. That would be very beneficial.

3216. The second area on which to focus is that of skills, which, as I said, are quite fragmented. If we are to develop tourism, it is vital that we improve the skills and capabilities of our industry. We feel that we need more emphasis on tourism-specific skills and capability development. Offering a marketing programme to both tourism and people who produce widgets does not always bring the best benefits, in my view. The experiences of the Council for Education, Recruitment and Training and of Fáilte Ireland in the Republic, and of Scottish Enterprise, show that if tailored support is made available for the sector, much more growth is likely to be generated.

3217. **Mr McGrath:** Another important point is that we must watch for the positive and keep the negative at bay. For example, there is a suggestion that a bed tax might be introduced in



the United Kingdom. That is a worrying prospect, and it would certainly make us uncompetitive.

3218. **Ms Gildernew:** I shall try to avoid being parochial, but —

3219. **Mr McNarry:** That will make a change; I think that that will be a first.

3220. **Mr McElduff:** You are guilty of that already. *[Laughter.]*

3221. **Ms Gildernew:** To what extent does the lack of political stability and the fact that the institutions are not up and running impede your attempts to boost tourism? To what extent do the lack of roads and bed spaces impede attempts to encourage tourists into the west?

3222. **Mr McGrath:** In many cases, tourists do not know about the lack of political structures. Providing that there is peace, instability does not seem to affect them. If the more sophisticated hoteliers are thinking of opening new premises, they might be influenced by a particular event or headline. However, events such as the Assembly closing — and it was not open for very long — do not make much difference, particularly if there is no violence and the peace continues.

3223. Mr Clarke mentioned the importance of transport, and we can cite many examples of tourists who have had difficulties getting around. They might have wanted to see a number of sites in different towns, but public transport is poor and the infrastructure needs to be improved. We concur with that idea.

3224. **Mr A Clarke:** We conduct visitor attitude studies every couple of years, and the main negatives that come out of those — and they are small negatives in the overall satisfaction levels — are public transport, the evening and Sunday economies, and food. As I have already said, public transport will become more important because people taking low-cost flights require good public transport links.

3225. The evening and Sunday economies are negative issues for visitors, who mention the lack of things to do in the evenings and on Sundays. Food is also listed as a negative — not

so much its quality, but information about where to get local food.

3226. Those are the three main negatives. I am talking about the visitors who come here, but the other side of the coin is people who are thinking about coming. Sue will tell you a little about the brand work that is done in the marketplace.

3227. **Ms Ward:** Northern Ireland's international reputation still faces a challenge when it comes to political stability. As much as we feel that we have come a long way, our international reputation is only as good as our last newspaper headline. Every two years we carry out brand tracking in the key markets with Tourism Ireland, looking at elements such as what inspires people to go on holiday and how important those factors are to those visitors. We compare Northern Ireland to the Republic, France, Germany, the US and Canada.

3228. Northern Ireland does very well on elements such as visitors being made to feel welcome, having plenty to see and do, and the quality of attractions and scenery. The one area where we are really left-field in comparison with everybody else is visitors' confidence in their safety and security when they get here. The destination public relations that I talked about earlier is helping to change that, but we still have a much bigger barrier than we thought we would have by this point.

3229. In Washington DC this summer, when I mentioned to taxi drivers that I live in Northern Ireland, they said: "I do not know how you can live there with those bombs going off all the time". They still have the image of Northern Ireland as it was perhaps 10 years ago. Therefore, we have a lot of work to do. Every peaceful summer, and every year that we go through that is more stable, helps Northern Ireland to catch up with its competitors.

3230. **Dr McDonnell:** Have we got the product right? What are we selling? How dependent is Northern Ireland on low-cost airlines? Have they made any difference? What happens if low-cost airlines disappear? With fuel prices through the roof, I do not envisage airlines remaining low-cost for much longer.

3231. One of NITB's major projects is the Giant's Causeway/Antrim and Causeway Coast. I wonder about the inclusion of Antrim in that project. My impression is that the Giant's Causeway gets about 65% of the focus and the Causeway Coast about 40%, leaving 5% for Larne to Ballycastle.

3232. **Ms Gildernew:** That is 105%, Alasdair. Your numbers do not add up.

3233. **Dr McDonnell:** Sorry. *[Laughter.]*

3234. Those figures should have been 65%, 30% and 5% respectively. There does not seem to be any significant focus on the coastal stretch from Larne to Ballycastle. Is that because it has no potential, or is there another factor?

3235. **Mr McGrath:** I am glad that you raised that. I am a ratepayer in Newtownabbey, and Newtownabbey Borough Council contributes to the Causeway Coast and the Glens of Antrim. I wonder when they will come south of Larne.

3236. **Mr A Clarke:** The Causeway signature project has three elements: the new visitors' centre at the Causeway; a world heritage site management plan for the UNESCO-designated site, including the stones; and the master plan.

3237. A key thrust of the master plan is the Causeway coastal route, which runs from Belfast to Derry/Londonderry. The intention is to reinvent the Antrim coast road to run the whole way between the two cities, making the Giant's Causeway the focal point. Brown-and-white tourist information signs are being erected, but that is not enough. Facilities must be improved, including everything from more tea shops in main centres such as Carnlough or Cushendall to better lay-bys, picnic areas and accommodation across the entire route.

3238. It was encouraging when, about four months ago, 'The Guardian' identified that coastal route as one of the five best drives in the world. It could be right up with the best in the world, if we get the product right. We are seeking funding for benchmarking with the Garden Route in South Africa to learn best practice and bring that back to the Causeway.

3239. The intention is not to focus solely on the Causeway. We have been discussing the interpretative thrust of the new visitors' centre. It is NITB's view that, rather than simply promoting the immediate area, the centre should promote the wider area, to encourage people to go to Whitepark Bay, Carrick-a-Rede and the Glens of Antrim. By doing that, we will encourage people to stay longer and spend more.

3240. **Ms Ward:** We recognise that low-cost airlines can be a double-edged sword, because they bring people out of, as well as into, Northern Ireland. However, they are working, and working well. Of the five new European routes launched by Continental Airlines last year, the Belfast route has been performing best. Earlier this summer, Continental celebrated the fact that 100,000 people had flown that route. Continental expects that, by mid-September, 50,000 Americans will have flown into Belfast. The percentage of inbound passengers from the United States is 42%, which we are pleased with.

3241. Airlines generally consider Belfast to be the weak link in comparison with Paris, Geneva or Rome. EasyJet, which has a European perspective, wants to build the percentage of inbound passengers to 30% over three years. That target has already been achieved for some routes: Geneva, Berlin and Paris have an inbound passenger percentage of 31%; Nice and Rome are not as high, but we are working to improve those figures.

3242. As regards long-term sustainability, Continental Airlines is pleased with its route so far. Belfast International Airport is now EasyJet's biggest airport outside London. Average employment figures have risen. The retail sector in Belfast International Airport has greatly increased in the past two years, mainly as a result of improved international access. Airlines and airports are positive about that.

3243. Low-cost airlines do deliver. They may bring more people out of Northern Ireland, but they open up Northern Ireland to so many more destinations. In the past, people would not consider Northern Ireland as a possible short-break destination because it took half a day, and two flights, to get here.

3244. We are really pleased to have that excellent opening. Remember that last year our European visitor numbers increased by 32%, and our US numbers by 20%. That is a positive factor.

3245. **Mr A Clarke:** You asked about what NITB is selling and whether the product is right. Under our framework, we have five winning themes. The first is short breaks — short-stay visits now make up much more of our market; the second is business tourism, which involves business conferences and meetings; the third is activities; the fourth is culture and heritage; and, finally, events. Culture and heritage is one of our most distinctive attractors, and all five signature projects are culture and heritage projects. NITB's involvement in the Smithsonian Folklife Festival 2007 in Washington DC is a big opportunity for us.

3246. The five themes are not separate; they are interlinked in many ways. For example, people on a short break often want to explore the culture and heritage of the area that they are visiting, or they may be visiting to attend a particular event. Therefore, the interlinking and integration of those five themes work to create the product that we sell.

3247. Has NITB got the product right? Our visitor attitude surveys show that there are high levels of visitor satisfaction. I have already outlined the negative areas, so obviously the product is not right. However, it is important to be aware that the international marketplace is fast changing, and we must keep ahead of customer demands. Work must be undertaken to develop the evening economy, to create better-quality accommodation, and to ensure that it is easy and convenient to book trips to Northern Ireland. We must get those things right in order to move forward.

*11.00 am*

3248. **Mr Newton:** The skills issue was skipped over very quickly this morning, although you later commented that it was a vital area. If the industry does not have the right skills, it may attract first-time visitors, but they will not come back again. The comment was made that NITB does not necessarily have responsibility for that area, and I accept that. However, someone must

grab this issue and adopt a holistic approach that includes both educational and vocational skills. Some kind of strategy must be devised. I would welcome your comments on that.

3249. **Mr A Clarke:** That is a very perceptive question, if I may say so. Skills is a vital issue. In many ways, the skills issue has the potential to become tourism's Achilles heel. It is pointless putting hard investment into the signature projects unless we have the necessary customer service and skills to support them.

3250. NITB does not have lead responsibility for skills; it is the responsibility of the Department for Employment and Learning (DEL). That responsibility was initially exercised through Tourism Training Trust Northern Ireland. Its funding ran out at the end of July 2006, and People 1st has now taken it on. People 1st is a new UK-wide sector skills council for tourism, travel and hospitality. However, there must be a merging of the future plans of People 1st, the Tourist Board, Invest NI and the private sector.

3251. To answer the question, People 1st is an opportunity that must be made to work, and that requires proper resourcing from DEL and proper delivery mechanisms. The first stage is to get the strategy under way, to get people to agree on it, and, most importantly, to get the industry to buy into it so that it actually meets its needs and requirements. However, further resources will also be needed for the delivery of the final strategy.

3252. **Mr Newton:** People 1st is a very undermanned organisation, and it receives project funding, as opposed to core funding, from Government. A strategy needs to be driven by an organisation that is properly funded and resourced, otherwise it will not be effective.

3253. **Mr A Clarke:** That is absolutely right. A strategy must be driven by a properly resourced lead organisation — it does not really matter whether that organisation is People 1st or NITB, as long as the organisation that takes ownership of the issue is properly resourced to deliver on it. That is a crucial point.

3254. **Lord Morrow:** I would like to ask about a few issues that I am slightly concerned that I

did not hear mentioned, although I may have just missed any reference to them.

3255. Fermanagh is perceived to be the tourism county of Northern Ireland, but I am unaware of any long- or short-term venture there. Is there potential for further exploitation and development in Fermanagh? That county is the gateway from the Irish Republic to Northern Ireland, and tourism from the Irish Republic has increased by 6%. Ms Ward said that when she goes to New York, the first question that people ask is how she can live in such an awful place with bombs exploding every day. However, tourism from America has increased by 20%, while the number of tourists from the Irish Republic, where people know that bombs are no longer going off, has increased by only 6%. That is a contradiction.

3256. Fermanagh has the best fishing potential in Europe. Fishing is the largest participation sport in the United Kingdom. There are two fishermen for every football fan who attends a match on a Saturday, and that has not been exploited to its full potential.

3257. Tom, I think that you said that no one noticed whether the Assembly was up and running, but I may have accidentally misquoted you. Will you comment on that? I am sure that you will agree that the scenes in Newry this week will not make your job much easier. In fact, they will make it infinitely more difficult. We can well do without those sorts of problems.

3258. Do you have any figures for tourists visiting Northern Ireland from destinations such as Malaga and Nice?

3259. **Mr McGrath:** Tourists from outside Ireland are unaware of the political situation in Northern Ireland, unless reports of violence appear in the national and international press. That is when people have a reaction to Northern Ireland. Tourists may not understand our institutions, but they understand the reports of violence when the international press picks up on them.

3260. I attended the prize distribution at an international angling competition in Fermanagh this year, so I can confirm that there is a wealth

of interest in fishing. There was great attendance, and folk from many parts of Europe participated, particularly from Great Britain.

3261. **Mr Clarke:** Tourism in Fermanagh has gone through a difficult period in the past five years. Fermanagh remained fairly static while tourism in Northern Ireland increased by 44%. Angling has not increased in recent years because there is now more competition.

3262. Cruising was heavily reliant on the German and Swiss markets, but they have gone through a difficult period economically. However, in recent months, the Tourist Board has worked with the local council and the private sector to create a new strategy entitled 'Destination Fermanagh — A new vision for tourism in Fermanagh' to try to take Fermanagh's tourism forward. It is a wide-ranging document, which examines not only the promotion of Fermanagh and product development, but the infrastructure required to succeed. The Tourist Board submitted resource bids during the comprehensive spending review and during the new round of European funding for 'Destination Fermanagh', because it needs that new approach to which you referred.

3263. **Ms Ward:** We do not pay much attention to the figures for Malaga and Alicante, because they are mainly outbound holiday routes. However, I will read our estimated figures from graphs for the routes that we support through air-route development. Forgive me if they are not 100% accurate. An average of 4,000 people a month fly into Northern Ireland from Paris. They have booked their flights in Paris, so that figure does not include outbound passengers. About 1,700 people per month fly into Northern Ireland from Berlin; 1,800 from Nice; 2,000 from Rome; and 2,000 from Geneva.

3264. The Berlin route delivers good inbound percentages, but there are only four flights per week. NITB is pushing Easyjet on that, and the airline is considering increasing the number of flights to seven per week. The figures that I have just given are the numbers of inbound tourists per month from those destinations.

3265. **Lord Morrow:** If New Yorkers are asking how you can live in such a dreadful



place, why is the number of Americans visiting Northern Ireland up by 20%, while the number of visitors from the Republic of Ireland is only up by 6%?

3266. **Ms Ward:** That 20% increase demonstrates the potential of the United States. Tourism Ireland is doing good work for us in New York, and the introduction of direct flights has made a big difference.

3267. NITB recognises that the Republic of Ireland market provides a challenge. One of the things that we are doing this year — and terms of reference will be with us in two weeks' time — is a review of our marketing in the Republic of Ireland, where there is huge potential.

3268. There is huge competition for visitors from the Republic of Ireland, as they have a huge number of flights available to them. There are 16,000 seats on flights to Northern Ireland on sale in Europe, whereas the Republic of Ireland has 20,000 seats on the Poland-Dublin route alone — more than to Northern Ireland from the whole of Europe. There is huge competition for the Republic of Ireland euro, but we are investigating and reviewing what we need to do to change that. We realise that we are only hitting the tip of the iceberg in relation to visitors from the Republic of Ireland.

3269. **Mr McCarthy:** We have been all around Northern Ireland, so it would be remiss of me not to draw attention to one of the best assets in Northern Ireland, Strangford Lough, which is in my constituency. NITB does not seem to have much planned for Strangford Lough. Fishing was mentioned earlier, but can you suggest anything to the subgroup to rectify or improve the situation in the wider area of Strangford Lough and the Irish Sea coast and to bring some prosperity to it?

3270. **Dr McDonnell:** I thought that Mr McCarthy was one of the assets.

3271. **Lord Morrow:** I thought that he was the asset.

3272. **Mr Clarke:** The Christian Heritage/St Patrick signature project spills into the Ards Peninsula, and it will be included in that overall initiative.

3273. We are trying to develop the Causeway coastal route, which was mentioned earlier, to link with the St Patrick route and, in due course, into the Mourne. We are looking at a programme of strategic routes throughout Northern Ireland to integrate the signature projects and link them all together.

3274. There is a working group around Strangford, which we feed into, but our main vehicle in the area is the Armagh Down Tourism Partnership, which has developed a business plan for tourism. Again, the key issue in taking that forward is to ensure that the resources are available to implement the plan.

3275. **The Chairperson (Mrs Long):** Do you have any views on fiscal incentives that might help to develop tourism within Northern Ireland?

3276. **Mr Clarke:** Accommodation grants are currently administered through Invest Northern Ireland. NITB has an annual budget of about £1.5 million for visitor amenities. We have tried to use that money to create momentum for the signature projects. For example, this year a sizeable chunk of the tourism development scheme budget will go into the Thompson Dock development to create some momentum on the Titanic project.

3277. In relation to market failure, NITB is beginning to examine what public-sector intervention is required to take tourism forward. Direct intervention in certain locations will still be needed. Those locations may differ from the current priorities, but the largest fiscal incentives must relate to programme budgeting for the major capital projects such as Titanic, the Giant's Causeway and the coastal route.

3278. Also, picking up on Mr Newton's point, there must be more investment in the skills side, and that requires proper resourcing. The key infrastructure and skills must be right in order to give the private sector a much better playing field on which to compete.

3279. **Mr McGrath:** Fiscal incentives might help the indigenous population to be a bit more entrepreneurial and the folk who are already in the tourist industry to expand their businesses. I have often felt that if some advantage were

given, some folk might advance. The feeling is that people come in from abroad and get the grants; that point has been made to us by a number of people in the hospitality trade. They would like some special incentive to help them increase their facilities.

3280. **The Chairperson (Mrs Long):** Thank you for your very detailed and useful presentation.

3281. **Mr Clarke:** Thank you.

*11.15 am*

3282. **The Chairperson (Mrs Long):** The next submission will be from Mr Victor Hewitt of the Economic Research Institute of Northern Ireland (ERINI). Thank you, Mr Hewitt, for attending at short notice. I must remind everyone to completely turn off mobile phones, as they interfere with the recording equipment. We have about 45 minutes; normally we allow 10 minutes for the presentation and the remainder for questions from members. We would appreciate it if you could be brief, without detracting from the evidence you present.

3283. **Mr Victor Hewitt (Economic Research Institute of Northern Ireland):** Thank you. I appreciate the opportunity to speak to the subgroup. I preface my remarks by saying that the ERINI board has not met to discuss this, so my remarks should not be taken to reflect the views of every board member.

3284. You have posed three questions: what are the obstacles to economic growth; what are the opportunities for, and effects of, fiscal incentives; and what might a financial package involve? I will try to structure my submission around those questions.

3285. I am sure that you have heard a lot of information about the economy, so I will not labour the basics. On the surface, the economy has been doing quite well since the 1990s. We have had fairly steady growth, as measured by gross value added per head. Employment has reached an all-time high with the creation of well over 100,000 jobs. Unemployment on the official measure has dropped below the radar compared to that of previous decades.

3286. On the downside, economic inactivity remains a significant issue. It is ahead of any other region of the UK by at least seven percentage points; that, due to ill health, is 50% higher than in the rest of the UK and 300% higher than in the Republic of Ireland.

3287. That is the surface picture. I have tried to probe beneath that to explore how the economy works in Northern Ireland. The obvious starting point is to think of the economy as a miniature national economy. That is not an appropriate vehicle, however. Instead I have focused on a balance-of-payments approach to the regional economy. That is not normally brought out, but if you consider the economy in those terms, it is fairly clear that Northern Ireland has a standard of living considerably in advance of what the market economy can sustain. In other words, we import a great deal more than we generate in exports to pay for those imports.

3288. If this were an independent country, a number of things would follow from that. First would be rapid depreciation of the exchange rate to bring the trade balance into line. That cannot happen, because Northern Ireland is part of the monetary union of the UK — and potentially that of the European Union — so the exchange rate is more or less fixed.

3289. Secondly, if prices could not be adjusted, unemployment would rise very rapidly in order to reduce the amount of consumption in the economy. That is not happening because a mechanism is available to finance the balance-of-payments deficit — to pay for the excess of imports over exports. That mechanism is, of course, fiscal transfers, which support wages and jobs in the public sector and sometimes support direct transfers to individuals through the benefits system. Those transfers are then used to support the purchases of goods and services, including imports. As long as that fiscal-transfer mechanism is available, the balance of payments will be financed and we can continue as normal.

3290. A question arises about the effect of fiscal transfer on economic activity. There is also an interesting question about the relative size of the public sector, which is very large in

Northern Ireland. I have tried to raise a matter that is not often addressed, namely that it is not only the amount of public expenditure that is important, but where that expenditure goes.

3291. Public expenditure can be thought of as supporting a spectrum of spending. At one end is consumption. For example, benefits are paid to recipients that support their standard of living. Likewise, the payment of wages to public servants supports their standard of living. Investment lies at the other end of the spectrum. Obvious areas for investment include roads, etc, but some expenditure has a dual character. For example, the payment of teachers supports their level of consumption and standard of living. However, the product of teachers is education, which is an investment in the future.

3292. Given the existence of that spectrum in public expenditure, what is the balance within that spectrum that is best for the future development of the economy? The evidence on that is quite interesting, and it does not come from Northern Ireland, but from Italy, where the south of that country has remained very poor for generations in comparison with the north. That situation also applies to Sicily, to take an island situation. Until the 1970s, the investment from the north of Italy to the south went into investment, supporting the building of infrastructure, etc. That investment then began to shift towards supporting incomes. Until that happened, evidence appears to show that the south was closing the gap with the north. Since income support took over from investment, that gap has more or less remained unchanged.

3293. A similar phenomenon occurred when East and West Germany reunified. After the Berlin Wall came down, the German Government made a conscious decision to support incomes in the east, rather than investment. The east has lagged considerably behind the west ever since. That shows an important issue concerning the use of the funds obtained by the Government.

3294. Productivity is at the centre of the performance of the economy. The evidence on that is a bit discouraging. I said that we had created more than 100,000 jobs, which is a much bigger rise, proportionately, than

anywhere else in the UK. Did the creation of those jobs close the gross-value-added-per-head gap with the rest of the UK? The answer is no.

3295. While we have increased the level of employment, the jobs that we have created have, on average, probably had a lower gross-value-added level than jobs that were created elsewhere in the UK. Therefore, the gap has not been closing. That gap was closing between 1990 and 1996, but, thereafter, it has remained static. That raises concern because the stated policy of the Government was:

*“To encourage the development of a high value added, innovative, enterprising and competitive economy leading to greater wealth creation and job opportunities for all.”*

3296. Job opportunities have been created, and some of those policy objectives have been met, but we have actually been creating relatively low-value-added, low-productivity and relatively low-skilled jobs. That is what an examination of overall productivity appears to indicate.

3297. Why is productivity different? There are a number of matters to consider, the first of which is industrial structure. If there are many industries that are traditionally relatively low in productivity, that will pull the productivity average down. That appears to be the case in Northern Ireland, where productivity is pulled down by about 3·5%. Another important question is whether the national economy — the one to which the local economy is most closely attached — is growing. That is a very important factor. If we had had the same economic structure as the UK average, we would have grown by 14% from 1995 to 2002.

3298. There are other catch-all factors, which can be attributed to local characteristics, such as location, transport costs etc. There is also what the Department of Finance and Personnel (DFP) describes as the “four drivers”, factors such as skills and R&D innovation. Also, the size of the public sector in Northern Ireland is unique. Once those factors are taken into consideration, it is only the growth of the UK and world economies that can push up productivity. Structural factors and other issues pull back productivity. When these other factors are taken into account, the

14% national growth factor comes down to a productivity increase of about 6%.

3299. Over the years, Northern Ireland has made enormous efforts to push up indigenous productivity by spending billions of pounds. From a historical perspective, that is a long, slow process. I shall use an analogy: an orchard can be grown from planting a handful of seeds, but there will not be a harvest for a very long time. Are there any short cuts? The obvious answer is yes. Instead of growing the trees from seeds, the trees are brought in and planted so that the harvest comes sooner. In my analogy, the trees being brought in equals FDI. Northern Ireland has been trying to do that since the early 1960s. We were relatively successful in the early years, but then FDI tailed off; our local difficulties did not make that situation any easier.

3300. The reason that FDI should be brought in is neatly encapsulated by a simple figure: productivity rates in foreign-owned firms are about twice the productivity rates of indigenously owned firms. In the Republic the figure is 4:1, but that is inflated somewhat by an accounting methodology in which profits are moved around to take advantage of the Republic's incentive structure, which is corporation tax. A-list companies that have high productivity rates are tremendous catches. They usually embed themselves in the local economy, establish supply chains and have R&D departments. Those A-list companies drive up productivity simply by pushing up the average, and they also drive up the productivity of firms working with them.

3301. Even if C-list companies come in, they at least capture the gross value added, which represents the wage payments to the employees, even if they have no R&D facilities or do not make connections with the rest of the economy. When consideration is being given to bringing these firms in, this ratio is useful: how much will be paid in grants relative to what might be returned? With regard to C-list firms, if the grants amount to a high proportion of the wages bill, it is a less attractive proposition.

3302. As far as fiscal incentives are concerned, Northern Ireland has traditionally used grants and, sometimes, loans and shares. Grants have

been awarded through selective financial assistance schemes and other schemes such as the company development scheme, which supplements selective financial assistance. Elsewhere, tax breaks are used, but there is a fundamental difference between those two instruments. Grants can change companies' input behaviours. Grants are given for capital so that companies invest more. Grants are given for training so that companies do more training. Grants are awarded because there is a belief that the firms are not investing and training enough and that if they did more, they would increase their output. Tax breaks can be used for that purpose; the R&D tax credit is used in that way.

3303. However, the main instrument is corporation tax, which is a different animal because it dangles a carrot in front of firms. The companies are not being told what to do and how to do it; instead they are told that if they succeed and are profitable, they will keep more of their profit than they would elsewhere. That is the game that the Republic has played for a very long time. Low corporation tax did not start in the 1990s; it goes back to the 1950s. At that time, corporation tax of 10% was levied on the profits of exporting firms. The European Commission ruled that that was illegal and that tax was extended to all firms eventually, but the Republic has been at that business for a long time.

*11.30 am*

3304. The Republic of Ireland is probably embedded with companies to a greater degree than we are, and, as a result, it has focused on what really is important to companies — the bottom line. Companies tell us all sorts of stories, but what they are really interested in is making profit. If one has the mindset to understand how they make profit, one has a head start when it comes to trying to encourage them.

3305. Corporation tax is an important instrument. To try to reduce it in Northern Ireland throws up many practical difficulties. None of those difficulties is insuperable, but, equally, none of them is without cost. An ideal situation for Northern Ireland would be for the Chancellor to agree to Northern Ireland having a different corporation-tax regime, with



everything else remaining the same. That is probably overly optimistic. The Chancellor is unlikely to allow Northern Ireland to have a grant regime alongside a tax-break regime, which, at the same time, is disruptive for the rest of the UK.

3306. A more likely scenario is that corporation tax will become a localised tax in Northern Ireland, as is the case with rates. We would keep the proceeds from the corporation tax, but the price that we might have to pay for that up front would be that the initial proceeds from the corporation tax would be taken off the block grant. If £500 million were paid in corporation tax in Northern Ireland, we would lose £500 million from the block grant straight away, and year after year. In return, we would keep whatever was raised from corporation tax. The gamble is that, by reducing corporation tax, we would encourage companies to pay more in the longer term than we are losing from the block grant up front. That is one scenario, and a likely one. One would like to think that other options are possible, but, based on our experience of the Treasury while working in the DFP, it is never that simple.

3307. I have mentioned, among other things, effective marginal tax rates and effective average tax rates, and I am happy to talk about those.

3308. What puzzles me most was the financial package. The size of the financial package is non-specified, but I am sure that members want a lump sum to be divided among various activities. We have received a number of financial packages. In 1998, the Chancellor unveiled a package, the Chancellor's initiative, which was worth £315 million. That put money into, for example, first-year capital allowances and the science park, and it paid for training programmes. Unfortunately, however, I can find no overall analysis of the Chancellor's initiative. Those projects were all carried out individually, but no one appears to have looked at the overall impact of how that money was spent. If one does not know what happened with the money that one received previously, one's case for asking for more is rather weakened.

3309. There are two elements to the reinvestment and reform initiative (RRI) that was launched in 2002. First, I do not count that as a financial package, because the Northern Ireland ratepayers must pay back what was borrowed, with interest. In fact, the borrowing mechanism is a method of trying to close the gap between what is paid by council-tax payers in the rest of the UK and ratepayers in Northern Ireland. Borrowing can only be accessed if that gap is closed. That is possibly not well known.

3310. Secondly, the control of security sites was transferred. Some of those sites were made available to be sold off for housing. Some of them have been taken on as investment opportunities. Ilex, the urban regeneration company in Derry, is attempting to develop the various barracks there. There are developments at the former sites of the Maze Prison and Crumlin Road Prison. Projects, however, have been quite slow to get off the ground from what I can see, and, in some instances, there have been serious internal difficulties. Therefore, the jury is still out on the RRI.

3311. If a financial package were allocated, on what could it be spent? My suggestion is that some of it could, in effect, be used to oil the wheels of change in the public expenditure system. If funding is taken from one programme and given to another, there are howls of protest. However, if that process could be smoothed to make the transition more orderly, it could potentially multiply the power of any additional funding.

3312. The second issue is to focus more on investment than consumption. If the consumption route is chosen, it creates a constituency for resource, and when the resource runs out, the constituency remains, which generates a lot of pressure. The European peace programme is a classic example of that. Its funding allocations were quite large to begin with; they are becoming quite small. However, in the meantime, infrastructures have been created, which are being inherited.

3313. I have probably talked for long enough, so I am happy to take questions.

3314. **The Chairperson (Mrs Long):** Thank you. Members have submitted a long list of questions, so I remind them to be as concise as possible to allow all members to ask their questions.

3315. **Mr Newton:** There are three issues on which I would like you to comment, the first of which is the impediments to the economy. On page 8 of your submission you refer to Prof Harris's research on R&D, saying that:

*"The basic problem is traced to the low R&D base among firms in the region and hence a fundamental lack of capacity to undertake such work."*

3316. The Northern Ireland economy has a strong SME base and, as I understand it, the manufacturing sector has declined to approximately 90,000 people. Without proper R&D and the development of higher-value-added products, it is likely to decline even further. How can we encourage more indigenous companies to invest in R&D?

3317. Secondly, the failure of DEL's Jobskills strategy was mentioned. If my reading is right, its potential replacement will be delivered heavily through what are being referred to as sector skills councils, none of which have core funding. They are dependent on project funding and are fairly low-level resourced bodies.

3318. The third issue is the disparate nature of the Northern Ireland Departments. For example, Invest Northern Ireland has its responsibilities, DEL has its responsibilities and so on. There is a lack of synergy and joined-up thinking between the Departments.

3319. I welcome your comments on those three areas.

3320. **Mr Hewitt:** I will try to be brief. I have a copy of Prof Harris's report, which I will leave for members to peruse at their leisure. It is a technical report, but the essential message is that R&D activity would be increased if the relevant tax credits were doubled or tripled. However, R&D takes a long time to feed its way through and can be relatively modest in its overall effect. The reason for that is that very few companies commission R&D. In Northern

Ireland, there are only five, or even fewer, major players in the R&D market. I will not mention names, but it is not difficult to identify them. In smaller companies, R&D often means redesigning a milk bottle every five years. That is not a serious assault on R&D.

3321. I am sceptical about heavy grant regimes for R&D. Probably the most effective way to involve companies in R&D is to get them to engage with people who can show them its benefits, be that other companies or, more specifically, local universities. One reason why I suggested that a financial package could be used to boost the university sector is that, although higher education R&D is relatively healthy in Northern Ireland, it is not expanding as much as it could.

3322. Carrots such as grants and tax credits can certainly be offered. Interestingly, the survey shows that local companies are much more interested in grants than tax credits, because they are paid up front and remove some of the risk. Tax credits are only available if profit is made or expenditure is incurred.

3323. I am not particularly specialised in the Jobskills programme. However, ERINI is heavily engaged with DEL in supporting research on the skills base for the economy. Those structures have yet to bed down. We reflect the situation in England, which is not always necessarily a good thing. It would sometimes be better to strike out on our own and tailor things to our requirements. I do not have much to say on that, although I can provide the subgroup with a supplementary note.

3324. Politics plays a large role. The number of Departments was increased from six to eleven, not for efficiency reasons but for political reasons, which led to some very difficult co-ordination issues. For example, the Department of Finance and Personnel (DFP) was undisputedly the primary finance Department under direct rule. After devolution, DFP was effectively shadowed by the Office of the First Minister and the Deputy First Minister (OFMDFM), with a joint approach to budgeting and so on during those years. That was not a particularly efficient use of resources, but it was politically necessary.

3325. I am most worried about the lack of a co-ordinating mechanism within Government for economic issues. The Economic Development Forum (EDF) does good work but, to be frank, policy cannot be discussed and developed in a quasi-public forum. Some matters must be discussed within Government, and there is no mechanism for that at the moment.

3326. The economic steering group was a co-ordinating mechanism for under-secretaries and permanent secretaries of Departments with an economic interest. That was quite a useful vehicle, because new initiatives could be discussed without the immediate assumption that they would happen, which tends to be the case when things are placed in the public domain. That group became moribund. A corresponding social steering group was also very active and helpful, but, again, that group became moribund. It might not be a bad idea to re-establish some of those co-ordinating vehicles within Government.

3327. **Dr McDonnell:** Could I just tease that out?

3328. **The Chairperson (Mrs Long):** You will have to be brief, because we have a long list of questions.

3329. **Dr McDonnell:** Surely the role of OFMDFM was to do exactly what you were talking about.

3330. **Mr Hewitt:** The economic policy unit within OFMDFM was established at the outset of devolution. Its remit was to stand back from the day-to-day business of Government to concentrate on longer-term thinking and co-ordination, especially in relation to the economy. However, the unit tended to pick up work on which other sections did not have a particular handle.

11.45 am

3331. Much business was transacted through the economic policy unit, which involved, in the short term, answering questions from your good selves in the Assembly, rather than concentrating on the long-term development of the economy. The economic policy unit was also the principal vehicle shadowing DFP on finance.

3332. **Mr Newton:** I would welcome the supplementary paper to which Mr Hewitt referred.

3333. **The Chairperson (Mrs Long):** I have added it to the list of matters to be addressed in the summing up.

3334. **Lord Morrow:** Mr Hewitt, in your submission you said that:

*“DETI has the objective ‘to encourage the development of a high value added, innovative, enterprising and competitive economy leading to greater wealth creation and job opportunities for all’.”*

3335. That is a noble and commendable mission statement. However, you paint a very gloomy picture of economic inactivity:

*“Part of the explanation for this is the higher proportion of students in Northern Ireland ... Very much more worrying, however, is the proportion of the inactive due to sickness or disability ... The Northern Ireland figure is 50 per cent higher than for the UK as a whole and an astonishing 300 per cent higher than in the Republic of Ireland.”*

3336. Those are some frightening figures. That obviously must be tackled if we are to have a thriving and competitive economy. Do you have any ideas about how to do that? Do you have any ideas as to why there are more sick people in Northern Ireland than in the Irish Republic or in the rest of the United Kingdom? Is that sickness confined to one area of Northern Ireland — are more people sick in the east than in the west, or vice versa? If so, something must be going on in those regions that we do not know about.

3337. **Dr McDonnell:** It is you they are sick of. *[Laughter.]*

3338. **Ms Gildernew:** Hear, hear.

3339. **Lord Morrow:** I will ignore Alasdair McDonnell’s remarks.

3340. You also said that:

*“The first thing to note is that the standard of living in Northern Ireland far exceeds what the market sector of the economy could alone sustain.”*

3341. You are obviously telling us that we are living far above our means. That must be frightening because, if I read the situation correctly, the bubble will burst one day, and our dilemma will be worse than ever. Furthermore, you tell us that:

*“Since 1996 over 110,000 new jobs have been created, an increase of almost 20 per cent compared to 12 per cent for the UK. Employment at approximately 700,000 is at an all time high.”*

3342. Yet, our sickness rate is the highest in the UK and is 300% higher than in the Republic of Ireland. Is there a contradiction in that?

3343. **Mr Hewitt:** Economic inactivity is a concern. I mentioned that unemployment rates have dropped. Long-term unemployment, which means being unemployed for longer than one year, is a dimension of joblessness that has always been higher here. To some extent, the long-term unemployed have migrated to receiving disability payments of one sort or another. Indeed, there was a policy, although I would not call it deliberate, that, at least for presentational purposes, during some phases people were encouraged to move off certain registers and on to receiving other benefits.

3344. I am not particularly concerned about the student element of economic inactivity, because I hope that students are an investment in the future and will get a job at some stage in their lives — I certainly hope that for my own.

3345. However, the sickness element is a considerable concern. If the overall general health of the population is increasing, why are we experiencing an outbreak of disability? At some stages, 1,000 people a week were becoming disabled. That is partly due to migration from one benefit to another. Jobseeker's allowance is a difficult benefit to get and sustain, because there are a lot of things for recipients to do and applications for them to fill in. They are seen regularly, and there is every incentive for them to get off that benefit and get on to one that is a bit more stable, where they are seen once a month or every three months rather than once a fortnight. Therefore, there is a combination of incentives.

3346. Immigration into Northern Ireland, especially from eastern Europe, is an interesting phenomenon that has not been commented on much. Anecdotal evidence that can be gathered by simply going round stores and restaurants and so on shows that a lot of people from eastern Europe are coming in and taking jobs that are at the bottom end of the market — filling supermarket shelves, working as waiters, working in the food factories in mid-Ulster.

3347. Why are those people coming here and taking those jobs? Why are local people who are coming off disability living allowance or jobseeker's allowance not filling those posts? The answer is that the difference between what people can claim in benefits and what they can earn in employment is a considerable disincentive to employment. Those benefits are not available to people who come from eastern Europe, at least for their first year here. Therefore, a labour-market experiment is going on, which we should study carefully and learn lessons from.

3348. **Lord Morrow:** Do you think that the medical profession has a role to play?

3349. **Mr Hewitt:** That may be so. I do not wish to cast aspersions on that profession.  
[Laughter.]

3350. **Dr McDonnell:** Good man.

3351. **Mr Hewitt:** However, I am sure that others who are better qualified will speak on that matter. Many GPs come under pressure from their patients.

3352. **Dr McDonnell:** The medical profession will have a role in extracting some of the poison and vitriol out of the political system.

3353. **Lord Morrow:** They have not been very successful to date. [Laughter.]

3354. **Mr Neeson:** I am interested in your remarks about the jobs that have been created in recent years, and the fact that they are not creating more gross value added. Is that a criticism of the development of jobs in the service sector, which seems to be growing at present? Why do you think productivity is greater in foreign firms than in indigenous firms?



3355. **Mr Hewitt:** Overall figures show that jobs that have been created are creating added gross value. However, they do not create as much as jobs in the rest of the UK. The productivity gap between Northern Ireland and the rest of the UK is now static. It rose from about 75% per capita to about 81% or 82%, but thereafter it has been static. I do not denigrate those jobs in any way, but they are not the type of jobs that are capable of closing that gap, if that is an objective. Many of those jobs are in the retail sector. The companies that have come into the retailing sector are big, and they are adept in their labour practices.

3356. When supermarkets hire employees, they tend not to provide full-time jobs. They provide part-time jobs, up to a certain number of hours in a period. The reason for that is that if they employ a person for more than a set number of hours, they incur National Insurance costs. They are clever about balancing their books. Jobs are being created, but not necessarily full-time jobs. We are talking about headcounts. One would like to see new jobs that generate above-average gross-value-added levels and close the gap between Northern Ireland and the rest of the UK. Those jobs do, at least, provide employment for people, but they are not the way forward, and do not promote dramatic growth in the Northern Ireland economy.

3357. **Mr Neeson:** Why is productivity greater for foreign companies rather than for indigenous firms?

3358. **Mr Hewitt:** That is not surprising. Foreign-owned companies tend to be engaged in exports. They operate in a competitive environment and there are competitive pressures on them all the time. They survive in those competitive export markets only by becoming efficient. Local firms are often not export-orientated, and their markets are local. Local firms are not subjected to the same competitive pressures.

3359. **Mr Neeson:** Large indigenous companies, such as Wrightbus Ltd, depend on exports. William Wright appeared before the subgroup on Tuesday 8 August.

3360. **Mr Hewitt:** Not all indigenous companies are of below average competitiveness. It is a

numbers game. There will be some, but there are not enough of them. It is the tail that falls below the average that tends to pull the average down. Those are the smaller companies that are probably not engaging in as much competition with their peers as would be desirable.

3361. **Dr Birnie:** I have two questions.

3362. First, we are faced with a choice between tax credits and corporation tax. At least, we can choose what to ask for; the decision on whether to grant either lies with others. Can you expand on the arguments for and against those two fiscal instruments?

3363. My second question is about the negative effects of the subvention. If we allow that they do exist, do you agree that there is a transition problem? If it is true that those sort of soft budget constraints lead to efficiency problems arising as a result of the bias towards spending for consumption rather than for investment, then the policy recommendation is not necessarily clear. Cutting consumption will create a negative demand effect in the short run, which will reduce income and employment. So we are on the horns of a dilemma. How do you make the transition?

3364. **Mr Hewitt:** I will deal first with the question about corporation tax and the tax credits for various activities. I try to make a distinction between incentives that target inputs into firms' production processes — such as R&D, skills, marketing strategies, capital investment, and so on — and other incentives.

3365. The so-called market failure argument is that a firm, left to its own devices, will not engage in as much of those sorts of activities as is socially optimal. From the firm's perspective, it might be doing exactly what it thinks it should be doing. It often thinks that it is taking the right approach and making sufficient investments, so it is difficult to persuade it that, from society's point of view, it is not doing enough. It is not isolated, so its actions cause a spillover.

3366. Putting that argument across to firms can be quite difficult. It asks them to do things that, from their perspective, are suboptimal, but

which, from society's point of view, are optimal — in other words, they are being asked to spend more than they normally would.

3367. I will use the analogy of pushing on a piece of string. Pressure is being placed on the end of the string in the hope that the front will advance. More emphasis is being placed on the inputs. Firms are employing more people and carrying out more R&D. They are not doing that for its own sake; they are doing that so that additional output will flow at the other end.

3368. The corporation tax is, in a sense, the reverse of that. It is pulling the string from the other end. It dangles a carrot in front of businesses and says: "You make the profit; you keep it." It does not tell businesses how to make a profit, simply that if they do make it, instead of paying 30% tax, they will pay just 12·5%. That is a big incentive for companies to increase their output.

3369. However, I need to introduce a caveat. The corporation tax is not just about encouraging companies to produce more. As I said, companies are clever entities. They will obviously attempt to move as much of their profit as possible from wherever it is in the world to the area with the lowest tax rate. That is, of course, what is happening in the Republic. Some colleagues would call that economic development by tax scam. Companies will attempt, through various transfer-pricing mechanisms, to make it appear that they are making most of their profits in the Republic. They pay 12·5% corporation tax there, whereas if they paid tax in the countries in which they were really making profits, they might be paying 30% or more.

*12.00 noon*

3370. The other factor is that this is not just a matter of the tax system in the country that is giving the incentives; it is also a matter of the tax system in the company's country of origin. The United States tax system allows companies not to pay corporation tax until they repatriate monies to the United States from earnings made around the world. However, companies do not repatriate those monies — they attempt to use

them for further investment outside the United States.

3371. There was an amnesty on that, and so much money, which had been held outside the United States, flowed back that it has probably held up the dollar for the past few years. Tax is a difficult issue. You are hunting big game, and you need the correct instruments to hunt big game, because they have sharp teeth.

3372. We can have almost ideological discussions about the public sector: public sector good, private sector bad, or vice versa. However, that takes our eyes off the ball. The private sector is not growing fast enough, but, if it did, it would generate income and wealth, and taxes would be paid on that. As a result, the fiscal deficit would automatically reduce.

3373. Dr Birnie asked whether the large public sector is a drag on the private sector and how resources can be transferred from the public sector to the private sector. That is a difficult question, because public expenditure and resources tend to have a ratchet effect — once you move up, it is difficult to move back down. An obvious solution is to limit the growth of, rather than cut, the public sector. That will happen in the next spending review. Public expenditure has been outstripping the growth in the economy, and it cannot continue at that pace.

3374. Some things will happen automatically, and others will require a rethink about public expenditure priorities and what we really want for Northern Ireland. Currently, a confused morass of priorities is packaged together, with a spin put on it that it is a coherent package. The investment strategy is an example of that. The Republic wants its current success to continue and will do things to reinforce that success. Here, an amalgamation of Departments' wish lists is packaged together as a strategy.

3375. **The Chairperson (Mrs Long):** Thank you. We have kept to time thus far, with the exception of the closed session at the beginning. However, we are now running into the time allotted for the Northern Ireland Council for Voluntary Action (NICVA). Are members willing to extend this evidence session to allow the last four questions to be taken, if they are brief?

Will members be available after this session, so that we do not lose our quorum for the NICVA presentation?

*Members indicated assent.*

3376. **Mr McNarry:** I welcome what you have said and written. You have brought an important perspective to our deliberations, and I thank you for that. I have nine questions, but I will only ask two.

3377. On page 11 of your submission you say that the low achievement of school-leavers borders on a scandal, and I agree with that. You suggest that a limited financial package would assist low achievers. Can you elaborate on that limited financial package? If your reply is extensive, perhaps you could provide it in writing.

3378. Secondly, what role will renewables play in our economy?

3379. **Mr Hewitt:** Low achievement among school-leavers has been a problem for some time and must be seriously addressed. I do not wish to get into a debate about the 11-plus, but, at the top end, there are some high-quality students. However, at the bottom end, the record is dismal. It is improving, but it is still not good enough.

3380. It is not satisfactory that people spend 12 years at school and leave with no qualifications — they attempt to get a job and are found to have no basic reading or numeracy skills. Money must be spent on remedial action in this area before such people can hope to gain employment.

3381. **Mr McNarry:** Does a lack of skills contribute to the sickness levels that you mentioned?

3382. **Mr Hewitt:** It may, but I am not aware of any detailed research on that. One can easily understand that if people find it difficult to get jobs because they have no skills or qualifications, they may become dispirited. They may feel that the easy way out is to be classified as disabled in some way and go on to long-term benefits. That is fatal, particularly for younger people.

3383. A lot of money goes into education. The structure of the education system has been inherited. Five systems of education run simultaneously, which is not efficient. When I

served on the board of governors of a good grammar school, I was struck by how many incentives for teachers are based on nothing to do with teaching. The incentives are to accumulate management allowances for doing almost anything other than teach. As a result of those incentives, the best teachers tend to spend relatively few hours teaching. Incentive mechanisms within schools ought to be examined.

3384. More analysis is required on a financial package to assist low achievers. We need answers to basic questions. Who is failing? Where are they failing? Why are they failing? We must then assemble a mechanism to address those matters. To some extent, that would probably have to be done by skewing some of the existing baselines and moving resources either from other parts of the education system or from other parts of the public sector to the education sector in order to finance that specific package. A financial package could ease such transitions.

3385. The analogy that most comes to mind is the Making Belfast Work initiative of many years ago, which members may recall. An investigation in various areas of Belfast produced quite shocking results. However, at least a positive mechanism was put in place. That was criticised but nonetheless did a reasonable job of focusing on achieving a particular goal. Similarly, achieving the goal of raising the educational attainment of low achievers would be worthwhile for both society and the economy.

3386. Renewables present quite a challenge. There is not time to examine the energy issues here, but the world has got itself into a bit of a mess over the years. I do not blame anyone in particular for that: it is a difficult area. Renewables are a means of addressing some energy issues, but nothing comes free. There are relatively high upfront costs that it is hoped can be recouped over long periods of time. Renewables make a useful contribution, but I do not consider them as playing a central role in the economy. However, if expertise in renewables and associated technology could be developed, that could be used to create a niche in the economy, which would be very useful.

3387. **Ms Gildernew:** You are most welcome, Victor.

3388. Evidently, there are many problems. Several contributors have talked about one such problem being a small private sector, as opposed as to an overly large public sector and, given the percentages, that could be the case. There is also the difficulty of duplication right across this island: 5 million people need healthcare, education, etc, and there is duplication everywhere.

3389. As for foreign direct investment versus indigenous industry, it is true that an American company can set up here and move its profits, on paper, to where it pays low corporation tax, and that has been the case in the South. I want to see a package or some type of financial incentives to help the small- and- medium-sized-enterprise (SME) sector, because there is a high level of dependence on SMEs, particularly outside Belfast. What is the best way to sustain indigenous companies to enable them to compete?

3390. **Mr Hewitt:** We have not really talked about the SMEs. Economists use the rather ugly term “lack of churn” to characterise that sector. Firms here have a relatively low birth rate but an equally low death rate — in other words, some firms tend to last quite a long time. That may be considered to be good, but firms in dynamic economies tend to have a high birth rate, yet also a high death rate. In other words, that high turnover drives the SME sector.

3391. We have done quite a lot of research utilising the global entrepreneurship monitor, which is a large-scale survey. People go into business for different reasons; some for opportunity, others for necessity. Interestingly, in the west of the Province, necessity drives people to set up businesses, whereas opportunity is a driver in the east.

3392. The ERINI went through a phase of providing grants, but that has died off. A universal small package is now available for those who want to start a business. The real secret is that people here do not have the skills to run businesses — they certainly do not have the skills to engage with the global economy. The best thing that we can do for small businesses is to increase our support for building

managerial skills and equipping SMEs for the realities of dealing with the wider world.

3393. **The Chairperson (Mrs Long):** Members should be conscious that Hansard is recording, and other conversations at the table may interfere with that.

3394. **Ms Ritchie:** In Northern Ireland, there is a problem with fiscal deficits, and subsidies have focused on maintaining income. What do you perceive to be the solution? The final paragraphs of your submission state that there is an urgent need to embrace an economic strategy. What does the ERINI perceive to be the essential components of that strategy? Your answer will assist us in formulating our interim report.

3395. **Mr Hewitt:** In relation to the fiscal deficit, the distribution of public expenditure is heavily weighted towards what might be termed “social programmes”, such as education; social housing, to an extent; and health, which alone consumes well over £3 billion of the available departmental expenditure limit.

3396. Investment in public expenditure has fallen away in relative terms; roads and bridges are not being built, and ports and access routes are not being developed as much as they should. The cutting-edge budget for economic development now looks extremely miserly. It is asking much of a Department such as DETI, which has a limited range of responsibilities, to carry the full burden of economic development on an upfront budget of £150 million, if that. Most of the remainder of the budget pays staff salaries. Serious consideration must be given to refocusing our efforts in relation to investment.

3397. A strategy is being prepared, of which many members will have seen a draft. As the principal Department for economic strategy, DFP is developing that with contributions from DETI. The strategy reflected typical DFP concerns; it is a finance-driven document rather than an economic document. Strategies need central vision — something that drives the activity. To engage with the global economy, one must connect and communicate within it.



12.15 pm

3398. Connectivity is important and can be translated into a range of actions. It can mean physical connections — ports, airports and factors such as the development grant system, which was a good, effective scheme. Connectivity can mean networks and telecoms. It can also mean people, because people need skills in order to engage with the world economy. Connectivity can mean foreign direct investment, with Northern Ireland being seen as an attractive location to bring in and engage with international companies.

3399. We need a theme that threads through all Departments so that Departments can ask themselves whether their work improves their ability to connect with the global economy. Some Departments will respond that they are working to improve standards of public service for the indigenous population. However, many Departments identify with issues such as that.

3400. **Dr McDonnell:** Thank you very much, Victor, for your presentation. It was stimulating and far-reaching. I have a couple of points that I want to probe.

3401. Michelle spoke about small companies. Does anyone in the economic world think that small-company loans are more beneficial than packages or grants? Such loans are successful in the United States.

3402. I feel strongly about R&D and pull-out technology companies, but I think that we are strong on the “R” and not so strong on the “D”. What can be done to encourage company spin-out from universities? I may be wrong and unfair about this, but much university research appears to be semi-academic or academic-oriented. Research seems to be undertaken for the sake of intellectual fulfilment rather than for the development of a viable company or a commercial product. Perhaps you could comment on those two points?

3403. **Mr Hewitt:** Loans are an alternative to grants. Companies must think carefully before taking a loan, so they may engage more fully. They must ask themselves whether a company’s activities will enable the loan to be repaid.

Companies do not have that concern about grants, because they are not directly repayable. The issue of loans could be further explored.

3404. You asked about research and development and the universities. We have come some distance from a time when Alfred, Lord Whitehead said:

*“Here’s to mathematics. May we never find a use for it.”*

3405. That sums up the academic approach to life. An incentive mechanism is imposed on universities — research assessment exercises — that rewards academic research. That is certainly the case in my subject area, where theoretical research is rewarded over applied research. Articles in journals about game theory, and so forth, will score better in the research exercise than a tedious piece of work on something practical on the applied side. However, we have subscribed to those national schemes. We should consider whether we need to follow UK national schemes slavishly.

3406. I mentioned that it might be sensible to make a serious effort to upgrade our universities beyond the level that they are likely to reach in the future, given the existing funding. The universities here have established companies of one sort or another to roll out the products of their research. Queen’s has spun off a number of rather successful companies. However, academic entrepreneurs tends to look at whether they can get a company up and running and established to a point at which somebody will take it over and buy them out, so that they can make a few bob from it. There is nothing wrong with that, but we do not really incentivise our academics to pursue that path.

3407. **The Chairperson (Mrs Long):** Thank you. I wish to put two other brief questions to you. First, you refer to the potential for the financial package to be used to oil the wheels of transition within general funding. Can you provide examples of where that has been the case in other economies or where it may be the case in our economy?

3408. Secondly, would you recommend harmonisation with the Republic of Ireland's rate of corporation tax?

3409. **Mr Hewitt:** I shall take the second question first. The subgroup is probably aware that ERINI was approached to undertake a study of the effect of harmonising the two corporation-tax regimes. That study is under way. We work on the basis that we go where the evidence takes us. I do not want to pre-empt the results of that study, which we hope to have in the autumn. We have involved teams of academics from Northern Ireland, the Republic and the rest of the UK to work together on that. Many of the issues are quite complex. I wish to make clear that the project is not about the practicalities; it is not about how we harmonise the two systems. It is about the size of the prize. If we are to do this, what is the potential prize for Northern Ireland?

3410. Other recommendations will flow from the answer to that question. If the prize were relatively small, the effort to try to introduce harmonisation would be less urgent. If the prize were large, the effort would be greater. At present, I hesitate to endorse absolutely the corporation-tax route as the way in which to go, but it is the only big idea in town that I have seen. If something that dramatically changes the trajectory is not introduced, it will be a case of more of the same, and we have had much of the same over the years.

3411. Off the top of my head, I cannot give you any local examples of where cash injections have been used to smooth a path. From my experience of working with public expenditure in DFP, the injection of relatively small amounts of money in Budget rounds produced results. Members will recall the Budget rounds. Those cash injections enabled disputes to be resolved and progress to be made. In a sense, that money was high-powered money, because it produced results way out of proportion with the actual amount provided.

3412. **The Chairperson (Mrs Long):** Thank you for those answers. On behalf of the subgroup, I thank you for your presentation and for subjecting yourself to what was a lengthy and

detailed question-and-answer session. It has been of great benefit to the subgroup's deliberations. Finally, a supplementary note on the Jobskills programme would be useful, if possible.

3413. **Mr Hewitt:** I shall leave this copy of the R&D report with the subgroup.

3414. **The Chairperson (Mrs Long):** The next submission is from Seamus McAleavey and Frances McCandless of the Northern Ireland Council for Voluntary Action (NICVA). NICVA has provided a written submission, which is included in the loose papers that members received at the start.

3415. You are both welcome. I must apologise because the previous presentation overran. I appreciate your patience. If you have mobile phones, I ask you to switch them off, rather than simply put them on silent mode, as they interfere with the recording equipment. There are 45 minutes available for the presentation. If you keep your initial comments as brief as possible, to 10 minutes, it will allow for the maximum number of questions and answers.

3416. **Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action):** Thank you for inviting NICVA to make a submission to the subgroup. We will be as concise as possible.

3417. NICVA is the representative body for voluntary and community organisations, much like the Confederation of British Industry is for businesses. There are approximately 4,500 voluntary and community groups in Northern Ireland. As with the private sector, they cover a broad range of areas, stretching from small groups to multinational organisations such as Save the Children. The voluntary and community sector here employs about 30,000 people and accounts for approximately 4.5% of the GDP. Its income comes from a broad range of sources. It receives public money for the delivery of public services, and members of the public and charitable trusts raise money for it.

3418. As some members know, NICVA is involved in the Economic Development Forum (EDF). In general, social partnership, through the engagement of the Government, the private

sector, unions, farmers and organisations such as NICVA, is a good idea. EDF is the closest thing to that, even though it is an advisory body to the Minister, rather than one that makes decisions. NICVA would like that engagement to be properly developed in future.

3419. The subgroup's terms of reference include impediments to economic growth in Northern Ireland. An obvious impediment is political instability, and if a sustained and stable Executive were in place, that would send out a strong message to investors around the world.

3420. A vision for Northern Ireland, which tells people what it is trying to achieve, must be developed. NICVA supports, and is involved in, DETI's 'Economic Vision for Northern Ireland'. However, one of NICVA's big fears is that it may be seen as DETI's vision: although DETI's strategy mirrors the priorities and budgets, it is important that a much more encompassing vision be developed.

3421. The Executive's work on the Programme for Government was good. It began to set out an all-encompassing vision for Northern Ireland that took account of political, social and economic development. NICVA believes that investors around the world would really want to see that.

3422. NICVA thinks that it is obvious — and I am sure that members will be focusing on this — that Northern Ireland is stuck between a rock and a hard place with the economy of the Republic of Ireland and that of the United Kingdom, which is dominated by the south-east of England. That has a huge impact on business development in Northern Ireland.

3423. NICVA has often said that merely talking about creating more entrepreneurs, or exhorting them, does not make increased entrepreneurship more likely. Subvention here amounts to around £5.5 billion. Approximately 66% of GDP goes through the public sector. That is unlikely to change. I am a member of EDF's enterprise subgroup. At its meetings, major business people have said that the smart career move is to go into the public sector, so to encourage entrepreneurs, wider options than fiscal incentives must be considered.

3424. The Republic casts a huge economic shadow over Northern Ireland, and Northern Ireland could more easily prosper if a common economic area were developed. For example, in future, the only way that petrol retailers who own petrol stations in border towns will be able to safeguard their risk will be to buy a station on both sides of the border. As tax rates change, they will get hammered on one side and then the other. We have seen that shift take place.

*12.30 pm*

3425. Much mention has been made of the reliance on the public sector. That is unlikely to change. Therefore, the private sector is not seen as a smart career option — there is a feeling of prosperity at the moment and private-sector jobs have increased. I agree with Victor Hewitt's earlier comment that, as public expenditure tightens, Northern Ireland will take the rap.

3426. There is general consensus that the private sector is too small. There is little doubt about that. NICVA recognises that manufacturing industries have gone to other places in the world and that we cannot compete with them as regards unit costs and so on. We must look to the new knowledge-based industries, which some economic commentators refer to as the "creative economy". In our submission, we highlight the views of Prof Richard Florida. Regions will attract investment based on the entire range of benefits that they can offer. Simply providing grant support, for example, is unlikely to attract investors who want talent and skills. Providing grant support will not compensate for investing in the wrong place. There is a fair deal of merit in the views that have been expounded by Richard Florida.

3427. NICVA agrees with promoting enterprise and taking risks. Like many members, we think that Northern Ireland has become very risk-averse and that there is a culture of risk-aversion. The Government can do something about that. If there is to be a new Executive, members might want to think about how bodies such as the Public Accounts Committee (PAC) are used. The reason there is a lot of risk-aversion is that people get punished for failure, which is often tantamount to public humiliation.

3428. Something must be done about that because it will thwart Ministers who want to deliver programmes and make changes. Many people will tell someone that they cannot do something and give 49 reasons. Our culture of risk-aversion goes across the public, private and voluntary sectors. Everyone blames each another. The Government can take the lead in trying to change that culture, and the PAC would play an important role in that.

3429. Unless Northern Ireland has the skills required by new industries, talent will not be attracted here. We must be able to attract talent from other places, as the United States has done in the past and the Republic is doing now.

3430. There are people much better placed than we to comment on fiscal incentives. However, reducing corporation tax on its own is unlikely to be a magic bullet. If corporation tax were changed tomorrow, investment would not flow in. It would have an impact, but a whole raft of other things needs to happen as well.

3431. Everyone, including the EDF, knows that incremental change will not make a difference. From the research that has been put before the EDF, we know that, if current policy interventions continue, not much will change in the next five or 10 years. There will be a flat-line development and, from some indicators, things will actually get worse. A radical change is necessary.

3432. The subgroup will probably have heard from DETI about the EDF's work on draft scenarios in which it can see whether specific actions will have greater impact in the future. That work has yet to come to fruition.

3433. Returning to Prof Florida's views, tolerance is important. One thing that modern investors will look for is a tolerant society that can cope with a range of people — Prof Florida refers to people working in the new software and hardware industries as being fairly Bohemian. The cities that he sees as doing well are quite tolerant. The policy document 'A Shared Future' might address that.

3434. Developing cities and regions is important, but we must achieve a balance by developing Northern Ireland as a whole. As a result of

conversations that we have had with others about many different issues, our sector is keen that regional development should be balanced. It should not be Belfast-based, with the west being left behind.

3435. Women are likely to be a big driver in the employment market. However, we need to think about that because we are very far behind with childcare provision and so forth.

3436. NICVA believes that the education system has failed Northern Ireland and that there are real problems; I am sure that members know the statistics. Obviously, there are different arguments about how we should go forward, but radical change is needed. If 25% of people in a modern knowledge-based economy have major literacy problems, they are simply written off. That is a waste to the economy.

3437. We worry about the figures on economic inactivity, and we cannot get our heads around those. Unemployment is decreasing, and there is a real feeling in areas that have experienced high unemployment that there are job opportunities — there is no doubt about that. However, something strange is happening in regard to people who are hidden in those figures. We are not quite sure what is going on with the 20,000 migrant workers who have come into Northern Ireland; that point will need further explanation.

3438. We have had our 10 minutes, so we are happy to take any questions.

3439. **Ms Ritchie:** What does NICVA perceive to be the financial instruments that would provide for a sustainable economy and for new growth in that economy?

3440. **Mr McAleavey:** There is a real problem with the amount of public expenditure that comes into Northern Ireland. Therefore, rebalancing the economy will be difficult. Focusing on one aspect of the economy, such as corporation tax, is unlikely to do the trick. Earlier today you heard Victor Hewitt say that tax is a difficult issue because it is like hunting the big beast. The Treasury is not keen on Northern Ireland looking for what it considers to be handouts. You will have to negotiate a



package that begins to set out how you would reduce the £5.5 billion subvention. You need to show how, if certain things were done here, that could make a return for the UK as a whole. A broad range of financial instruments would probably be included in that package.

3441. **Ms Frances McCandless (Northern Ireland Council for Voluntary Action):** We would also like to see any public investment that is part of the package being used to lever in massively increased private investment. We want to see attempts at serious regeneration. We want someone to stand up and say that north Belfast needs an overall facelift. Now that the Crumlin Road site is opening up, there are opportunities to develop major arterial routes, businesses, shops and leisure facilities — housing is being tackled already. However, if such work is done in dribs and drabs, the projects cannot always be connected.

3442. We want to see a massive project of the type that public funding alone could probably not deliver. We have seen models in the United States in which public and private funding streams are used together. Those projects return market rates to investors and provide sustainable income streams for communities. The communities have a say in how the regeneration of their areas should look. We would like to see some kind of investment being used to channel that sort of change into some of our most deprived areas.

3443. **Dr McDonnell:** The high levels of underemployment and disability have jumped out at us. Someone said this morning that disability levels here were 50% higher than the UK average and 300% higher than the figure for the Irish Republic. Do you have any idea why we are stuck there? What are the components of those statistics? How should we unlock the potential that is buried there?

3444. **Mr McAleavey:** Some people think that the population is entrepreneurial when it comes to claiming benefits. It is said that difficulties placed upon the unemployed by jobseeker's allowance caused a flight to other benefits, and that that was the smart option for claimants. It is noticeable that the numbers are much higher

here than in the Republic, and that is why there is a need for a closer look at the economically inactive. It is wrong to leave people stuck in a mould and left behind in terms of economic development. We are unsure of what is happening, but we think that it is related to opportunity and perception of wage levels. People north of the border are not seeing the opportunities that people see down south. That must explain the huge variation in numbers.

3445. **Ms McCandless:** It is also important to look at the structures of worklessness. We have many workless households in which there are two potential earners, neither of whom are working, and both possibly on sickness or disability benefits. As soon as one of them steps into the labour market, the benefits disappear. Unless both of them can find jobs concurrently, it is not worth either of them working. We need to look at the income structures of individual families. Those are the hard cases. New Deal has dealt with the easy cases and we are down now to the cases that are very difficult.

3446. **Mr McAleavey:** Some years ago in the Republic, transition periods were created, during which people could hold onto benefits as they moved into employment. That let people make the leap into employment.

3447. **Ms McCandless:** Mentoring schemes were also used very successfully south of the border. For someone who has been long-term sick or disabled, getting up every morning and going in to work is extremely difficult. They might be able to do it for a month, and then they stop and they are back at the start of the road again.

3448. **Lord Morrow:** I have read a substantial part of your paper and I would like you to clarify some things. You said that we were between a rock and a hard place. I think you said that, economically, we are stuck. Mr Hewitt said earlier that there had been a 20% increase in jobs in Northern Ireland, as compared to 12% in the UK. That, on the face of it, is good news, but perhaps when we delve deeper we learn more. I agree that the private sector is too small and has to expand. We keep knocking our education system. All we hear is that it has failed. Tell us what needs to be done to turn it

from failure to success, so that it will better serve the people, the community, our children and generations to come.

3449. I am glad that you touched on migrant workers. I believe that the issue must be explored. I come from Dungannon, where we see this phenomenon at first hand. There must be reasons why thousands of migrant workers are coming in, and we must learn what those reasons are. I believe that no in-depth study has been made to try to find out the reasons for that.

3450. I am concerned by what you say in your submission about the Celtic tiger:

*“A host of other factors in the Republic have played their part like: reform of the education system and creation of regional colleges; creation of a Social Partnership in 1988; targeting of investment in pharmaceuticals, computer software and hardware; attracting corporate European headquarters to Ireland; clustering effect”.*

3451. Please help me to understand that.

3452. Your submission also says that:

*“NICVA believes that fairer, more equal societies are more desirable [and] more economically stable”.*

3453. What is your definition of a fair and equal society?

3454. You mentioned the petrol filling stations along the border. You are correct to say that many of them have closed, but it was not for tax purposes alone. Although that was a factor, there is another issue: racketeering and smuggling. We are trying to get on to a level playing field. How can that happen and how can it be encouraged?

12.45 pm

3455. **The Chairperson (Mrs Long):** There are a lot of issues to cover: schools and how the education system can be adapted; migrant workers; how a fair and equitable society can contribute to economic growth; the European headquarters and clustering effect; and the impact of racketeering on the economy.

3456. **Ms McCandless:** First, as we have said in many places, NICVA would like to see the removal of selection. Two years of “teaching to the test” could be removed and two years of education could be put back into the education system. Selection does not advantage any of the kids in the system.

3457. NICVA would like smaller class sizes and the link to be broken between where a child starts out and what their educational attainment is likely to be. In Denmark, there is absolutely no statistical likelihood that a child who comes from a disadvantaged background will have a poor educational attainment. In the UK, there is quite a strong link between those two factors. We would like that link to be broken because, for the economy, it means wasted potential.

3458. We would like to see some other changes in the education field, and we have put many of those proposals in writing in recent months. Of course, we would also like to see less waste and duplication in the system; we do not really want there to be five education systems. Investment should be much more strategically targeted at giving kids a better outcome.

3459. NICVA welcomes the new curriculum because it allows young people the flexibility to make choices at different stages in their educational career. Thus, if they find they are not on the right path at age 11 or 15, they still have time to make new choices and to adjust.

3460. **Lord Morrow:** I hear what you are saying, but it is at variance with every survey that has been carried out.

3461. **Ms McCandless:** It is not, actually; I have various analyses that I could send you of all the different surveys. Surveys often ask two similar questions. We will not go into this in detail now, but, for example, if you are referring to the ‘Belfast Telegraph’ surveys, people may say one aspirational thing in one answer — they may perhaps say that they want an end to selection — and on another question, if they are asked whether they think selection is fair, they will say that it is not. The survey evidence has been used quite selectively, shall we say, in some of these debates, but I do not think that we need to go into that here.

3462. Turning to what we mean by a fair and equal society, in Northern Ireland income differentials between the richest and the poorest are still slightly increasing. In the UK as a whole they increased hugely during the 1980s and then stabilised a bit, but they are still massive.

3463. NICVA looks at regions such as Scandinavia, as do many others — including the UK Government — and notes that where the gaps between the rich and the poor are smaller, the economies are much more vibrant and stable. They have stable political systems and civic institutions, strong trade unions, and extremely open and competitive economies. Sweden's economy is more open, in global terms, than the Republic of Ireland's economy. Sweden is now number one, and the Republic of Ireland number two, in terms of inward and outward investment flows. Therefore, we do not believe that equality and economic success are mutually exclusive.

3464. **The Chairperson (Mrs Long):** The other three issues were: migrant workers and how they affect economic inactivity; the clustering effect of European headquarters; and racketeering.

3465. **Mr McAleavey:** NICVA has highlighted the issue of migrant workers. I am very conscious of Lord Morrow's remarks about his area, where 10% of the workforce are migrants, yet there are still a large number of economically inactive people. Are people here missing out for a particular reason? The meat plants in places such as Dungannon try to attract migrant workers because they do not appear to be able to find workers locally. That is a huge issue. Lord Morrow is right that we do not know enough about the exact reasons for that. Migrants are very attractive to the economy as they bring in new skills, and better skills as regards the knowledge economy, and so forth. They have been very important to other places. NICVA is not in the least anti-migrant.

3466. As regards European headquarters, the South has a policy of trying to attract companies that will establish headquarters there. About four years ago I attended a talk by Ketan Patel, who was then head of strategy at Goldman

Sachs. He highlighted economic hotspots and noted that Ireland was the base for the European headquarters of big companies such as Intel. A peripheral island is increasingly placing itself at the centre of some of the current economic development. We must consider how we can benefit from that.

3467. Racketeering has a desperate effect along the border. The political parties made representations to the Chancellor to cut fuel duties, recognising that we are losing — or he is losing — £500 million in duty, and that it was fuelling illegal activity along the border. Racketeering is the downstream activity that comes about as a result of the differences along the border. Petrol stations in Newry used to be extremely busy, but now it is those on the other side of the border. A legitimate business on the border can be wiped out on one side or the other, and we must find ways to deal with that. The Chancellor would not cut tax in Northern Ireland, because that would upset constituents in England. One way to cure racketeering is to cut tax: if there were no incentive, there would be no racketeering.

3468. **Mr Neeson:** I recognise the important role that NICVA plays in the EDF; one of its recent meetings was held at NICVA headquarters. I am pleased that you highlighted the importance of the development of a shared future. Do you think that enough is being done, through Government policy, to develop that? Secondly, what could social partnership contribute to developing the economy of Northern Ireland?

3469. **Mr McAleavey:** A shared future takes a long time, like many things, but it is a prerequisite to economic development. On the day after 9/11, the EDF met in the Ramada Hotel and discussed the impact of the Holy Cross dispute in north Belfast. That had a massive negative impact on attempts to attract investment to Northern Ireland. Investors are attracted to stable, tolerant places, and the reverse of that is unappealing, because there are easier places in which to invest. That is NICVA's basic premise on the economy.

3470. The social partnership model is important, because there is benefit in getting the Govern-

ment, the private sector, unions, the voluntary sector and others to try to agree a shared position on the future of the economy, but we do not really have that. Take renewables, for example: I raised the issue of wind farms at the EDF and asked if it would be possible to get a joint position on it, but many people backed off and said that it could cause trouble. They asked me to square it with my members, but our members have differences of opinion. Some voluntary organisations totally oppose it, and others think that it is great.

3471. Unless we sit down, try to thrash these things out and get a body of opinion which is shared by the Government and the other sectors, we will be unable to make step changes. The issues that we have to deal with will be difficult and painful, so it would be a good idea to try to get agreement on them.

3472. **Ms Gildernew:** Your submission showed common sense and was succinct, which is always good for a subgroup that is buried in paperwork.

3473. Last week, the economist John Simpson said that school representatives had told him that children's behavioural patterns were no longer appropriate for an educational environment by the time that children had reached the ages of five, six or seven. That is an indictment of us, of the education system, and of the communities that have that level of difficulty in them. What does NICVA — and the groups affiliated to it in the voluntary and community sector — think we could recommend or do to try to tackle that? If four- and five-year-olds cannot benefit in an educational environment, they cannot benefit in an economic environment.

3474. Your submission mentions women in the workforce. I know many women who have great skills and qualities, for whom it is not economically viable to work after they have had three or four children, because they would be working to pay the childminder. What possible incentives or measures could be put in place to encourage women into the workforce?

3475. The third part of my question is about regional growth: what can be done to ensure that any economic growth is not solely centred

around Belfast and that the west does not get left behind?

3476. **Ms McCandless:** Part of what I said in answer to Lord Morrow's question is relevant here too. Investing in children is part of the key to turning the economy around, and it is too late when they are four or five years old. A great deal of statistical evidence from child psychologists and child development experts shows that children learn to learn from the ages of 0 to 3 years: that is when they learn to socialise and interact with others and develop all the skills that they will use for the rest of their lives.

3477. There are kids at that age who, if they are looked after at all, are being looked after by 16-year-olds with an NVQ. In other parts of the world, you need a university degree before you can go anywhere near young children in a developmental setting. Much more investment should be going into those early years, so that before young children even get to school, they have had the kind of investment in their learning and developmental capacity to enable them to take advantage of what the education system can then offer.

3478. Programmes such as Sure Start have been running for a while. Head Start has been running in the United States for about 20 years. There was a great fuss about the evaluation of the UK's Sure Start programme, because it was not entirely positive. However, it is early days to evaluate a programme that is intended to be as long term as Sure Start. Only now, some 20 years on, are meaningful evaluations being done in the States: did those kids get decent jobs, did they achieve decent levels of educational attainment?

3479. NICVA's response would be to beef up the investment in early years. There is no better place to spend money than on the first three years of a child's life: it is better than spending money on a university education, because by that stage it is far too late and middle-class kids are most likely to benefit.

3480. That answer is also relevant to the question about women moving into the workforce — and to lone parents who are not women — who are the sole carers for their families and have no other options. Universal, accessible, high-quality



childcare, as is available in other countries, would potentially release a huge pool of labour into the workforce, much of which is already skilled and equipped, but not currently being utilised.

3481. **Mr McAleavey:** Regional growth is a big issue. In discussions with the Advisory Council on Infrastructure Investment and the Strategic Investment Board (SIB), NICVA has said that good communication and transport systems in Northern Ireland are critical to achieving balanced regional development. Having good communication and transport systems means that the workforce can move around relatively freely, or does not have to move, and provides the opportunity for companies to locate in different areas, particularly in the west. Without them, Northern Ireland will experience the same problems that develop everywhere, such as in Dublin, where everything gets increasingly sucked into the one area in which incoming investment wants to cluster. It must be made attractive for investors to locate in different parts of Northern Ireland.

3482. **Mr McElduff:** There is plenty of evidence that the border impacts negatively on our economic opportunities, and there was a reference to pressure on petrol retailers along the border. I know that Maurice Morrow understands that well, because DUP members are often in the queue in front of me in Emyvale and Lifford. *[Laughter.]*

3483. I will not name them, because I do not want them to be investigated by their party.

3484. Will you elaborate on the suggestion in your submission of a joint economic area?

3485. **Mr McAleavey:** NICVA recognises that there are social and economic difficulties in border areas everywhere. The European Union has been running the INTERREG programme for donkey's years, so we all know that many border areas have problems, some of which relate to peripherality itself. It is not specifically a Northern Ireland/Republic of Ireland problem, but where the disparities are greater, the difficulties increase.

3486. The view of NICVA and the EDF is that the economy in the South casts a big shadow, and has done so for the past 15 years. Much of the discussion at the EDF concerns the Southern economy and its impact on the North.

*1.00 pm*

3487. We must find a way to harmonise with the South, or its economy will obliterate ours. That is not a political view; from an economic viewpoint, the North would not be an attractive place in which to invest. In the UK, businesses cluster in the south-east of England. There are problems in Great Britain in connecting with the north of England and north of the border. However, motorway development has allowed some business to move north. It is critical that we find a way to give us a fair opportunity to compete with the economy in the South.

3488. **Mr Newton:** I want to concentrate on skills. At paragraph 1.7 of your submission, you say that:

*“The [skills] strategy would be far more effective and powerful if it had greater focus on the ‘customers’ — the people who need training — rather than on those who may wish to employ them.”*

3489. I want you to explain that sentence to me. As I understand it, the Jobskills initiative, which received extremely bad publicity and was regarded as a £500 million fiasco, dealt with the perceived needs of customers and in many cases ignored the needs of future employers. Training was being done for the sake of training. At the end of the training period, trainees were hugely frustrated when they discovered that there were no jobs for them. Many trainees felt that they had been used as cheap labour and that they did not even get a worthwhile qualification that would enable them to get another job.

3490. NICVA seems to be advocating a return to that situation and a move away from a philosophy of supply and demand. I tend to favour the latter option. Training that aims at meeting the needs of employers results in high placement levels and securing of jobs at the end of the training period — around 80% in that

context, as I understand it, against 12% where training is being done for the sake of training.

3491. **Ms McCandless:** NICVA does not dispute what you are saying; we agree with you. Paragraph 1.7 of our submission is linked to paragraphs 3.2 and 3.7. NICVA is not saying that customers' perceived needs have not been dealt with, but that customers' real needs have not been dealt with. People are given inappropriate training, or training that they never fully access because they may need additional help or support. Paragraph 3.7 of our submission lists the factors that prevent people from taking up, or fully benefiting from, training that has been offered to them.

3492. The balance must be addressed between what employers think they need today, what people think they can access and benefit from, and — the third leg of the stool — what the economy needs tomorrow. Paragraph 3.2 of our submission deals with that issue.

3493. The supply side must be dealt with. Perhaps there is an element of: "If you build it, they will come". If Northern Ireland were stuffed full of skilled engineers and graduates in bioscience, biotechnology and nanotechnology, would employers come here? Possibly they would. Supply and demand must be catered for. NICVA does not advocate swinging the balance entirely towards the customer. The balance must be redressed slightly, and the needs of the future economy, rather than the needs of employers today, must be factored in.

3494. **Mr Newton:** Also in paragraph 1.7, you say that NICVA advocates moving away from employers because they have no idea how to motivate low-skilled people.

3495. **Ms McCandless:** We say that we should move away from employers leading the training process. Employers should participate, but an undue emphasis has been placed on employers leading the strategy based on current needs.

3496. There are two elements missing from that: what skills people can absorb and use; and what employers or the economy will strategically need tomorrow. What employers will need tomorrow is not the same as what they need today.

3497. **The Chairperson (Mrs Long):** I take this opportunity to thank you both on behalf of the subgroup for providing us with your presentation at relatively short notice and for the question-and-answer session. Your contributions have given us an important perspective on the community and voluntary sector's point of view. Your input has been very valuable.

3498. **Mr McAleavey:** Thank you, Chairperson, and thank you to the subgroup.

3499. **The Chairperson (Mrs Long):** Members, we are now in closed session, and the next item on the subgroup's agenda is "Any other business". We have the research presentation from Dr Peter Gilleece to discuss, but, before we deal with that, we shall consider the draft of the subgroup's press release.

3500. **The Committee Clerk:** We had not received the presentations before today's meeting, so we could not write the press release before the meeting. I have had to write down notes as we have gone along. The question-and-answer sessions were so good that I have had to leave out a great deal. I shall now read my notes — minus the topping and tailing, which is standard — on the evidence sessions, to see whether members are content.

3501. In his presentation, the chief executive of the Northern Ireland Tourist Board, Alan Clarke, described the trends in tourism performance. Those trends indicated a generally positive and improving position on visitor numbers and spend. Mr Clarke emphasised the importance of developing effective planning strategies to support sustainability and the importance of promoting better joined-up government to provide the strategic leadership that is needed to grow the industry and to move it from a discovery destination to a long-term-brand position. NITB has identified to the Government the funding requirements for five key signature projects and recognises the importance of securing adequate public and private investment for capital projects.

3502. Mr McGrath noted the importance of avoiding an increase in tax initiatives, such as a bed tax, which could make the Northern Ireland tourist industry uncompetitive. He stressed the

strategic importance of having an effective roads infrastructure so that Northern Ireland can take full advantage of increased visitor figures, which have come about as a result of people's benefiting from cheaper air travel. Mr Clarke noted the need to merge the efforts of NITB, People First and Invest Northern Ireland to ensure that the tourist industry has an adequate supply of appropriately skilled staff.

3503. On earnings, Victor Hewitt noted that the economy has been performing quite well: unemployment has been reduced and gross value-added has improved. He added, however, that, when considered from a different perspective, Northern Ireland had not performed so well. It has higher rates of economic inactivity, and there is a large trade deficit between its exports and imports. That deficit is financed by the fiscal transfer from the United Kingdom Exchequer of some £6 billion per annum.

3504. Mr Hewitt said that Northern Ireland's lower productivity rate reflects the traditional industrial structure and its bias towards low productivity industries, the rate of growth in the United Kingdom economy and a range of supply-side factors that can influence productivity performance. Key among those are the so-called drivers of productivity: innovation, especially R&D; enterprise; and skills in the workforce. Improvements in those areas will give long-term economic benefits.

3505. Mr Hewitt noted the low R&D base in Northern Ireland companies and emphasised the importance of linking business to universities to identify R&D opportunities. He noted also the advantage of developing networks and collaboration between businesses to maximise R&D activity. He noted the importance that FDI attached to a low rate of corporation tax, both in Northern Ireland and in the source economy. He added that some care should be taken to ensure that tax incentives such as corporation tax were structured to maximise future investment in the economy. He emphasised the importance of developing a coherent public-expenditure strategy that focuses on a central theme and encourages economic growth and genuine productivity gain.

3506. I know that this summary is proving to be a bit long, but they are key points, and I will pare them down in the final version.

3507. When speaking about impediments to economic growth, Seamus McAleavey from NICVA noted the importance of political stability and a devolved Assembly. Although NICVA supports DETI's 'Economic Vision for Northern Ireland', Mr McAleavey recognised the need to develop a wider vision that would create a politically, socially and economically attractive society.

3508. NICVA would like to see action to encourage entrepreneurship to address the risk-averse culture that pervades the public and private sectors.

3509. NICVA is not convinced that, on its own, a reduction in corporation tax would be sufficient to create the fiscal environment needed to stimulate business and investment.

3510. Mr McAleavey said that regional imbalances in Northern Ireland must be addressed to encourage a wider spread of economic opportunities across rural and urban areas.

3511. NICVA recognises that, on its own, public expenditure would not be sufficient to address adequately the structural problems facing, for example, north Belfast, and that a joint public and private sector investment package, similar to approaches taken in the USA, is required to regenerate such areas.

3512. I have tried to capture issues that have been raised by the witnesses from, if you like, both sides of the house. If members are content with those —

3513. **Mr McCarthy:** Should we publicise the comments that the representatives of NITB made about the possible introduction of a bed tax? Doing so might plant a seed in somebody's mind to introduce it.

3514. **The Committee Clerk:** The seed has been planted. The bed tax might grab media attention, so perhaps we should not publicise it.

3515. **The Chairperson (Mrs Long):** Are members content with the press release?

3516. **Lord Morrow:** There is one thing that I think should be included. No mention is made of the fact that members contributed to the meetings by asking questions. The press release refers only to the witnesses' presentations, and I am not sure that that will give members of the public the right impression.

3517. **The Committee Clerk:** Lord Morrow, the beginning of the press release states that the initial presentations were followed by extensive question-and-answer sessions.

3518. **Ms Gildernew:** The members who attended the meetings are named at the end of the press release.

3519. **Lord Morrow:** Victor Hewitt and NICVA said that they are concerned about the number of people who are economically inactive. I too am concerned about that, as, I am sure, are other members. It must be addressed.

3520. **The Committee Clerk:** I will add a line on that.

3521. **Lord Morrow:** Yes. It should be included.

3522. **Ms Ritchie:** That issue must be addressed.

3523. **Ms Gildernew:** Another theme that arose frequently was investment in education. The reference need not be elaborate, but we should include it as the issue was referred to in most of the presentations.

3524. **The Chairperson (Mrs Long):** Members would like references to economic inactivity and investment in education to be included. On that basis, are members content with the press release?

3525. **Dr McDonnell:** The investment needs to be targeted at the correct education sector. A fair amount is invested in education, but some of it needs to be better focused.

3526. **The Committee Clerk:** Do you mean tailored investment?

3527. **Dr McDonnell:** Yes, because the places that need the investment most are sometimes skimmed over and ignored.

3528. **Mr McNarry:** I am happy enough with the press release. However, the subgroup has

received few facts on the level of economic inactivity. Could the subgroup get some more detailed facts on how major a problem it is?

3529. **The Committee Clerk:** If the subgroup has identified any specific areas on which it would like more facts, I will ask the relevant organisations for them. The DETI submission listed some of the reasons for economic inactivity. They included sickness and other areas that I cannot remember off the top of my head. There are four or five reasons, and the DETI publication gives the percentage split for them.

3530. Are there any other areas on which members would like further information?

3531. **Ms Ritchie:** Perhaps the Social Security Agency (SSA) could be asked to provide information on the number of applicants and approvals that there have been for the various disability benefits over the past 10 years? Such information would show whether there have been increases and whether there are regional variations. Perhaps, also, we could ask for an assessment of why those increases have taken place.

*1.15 pm*

3532. **Mr McNarry:** There are many genuine and deserving cases, and we must not be seen to be intruding on them. There is also the scam element, which is difficult to prove.

3533. **The Committee Clerk:** Perhaps we should have someone to talk about fraud figures.

3534. **Mr McNarry:** There is a lot of fraud, but is it an impediment to economic growth in Northern Ireland?

3535. **Lord Morrow:** I think it has an impact, David.

3536. **Mr McNarry:** It has an impact on people's mentality. Many people ask: "Why am I working my butt off when there is a malingerer or waster sitting in the pub, playing cards and doing nothing when he is meant to be sick or receiving disability living allowance?" It would help to find out how large the problem is.

3537. **The Chairperson (Mrs Long):** Three questions have arisen. We need to clarify how we want to deal with them. The first one is what constitutes economic inactivity, and how the



figures are broken down. It seems that this has been dealt with in the report from DETI. If members are satisfied that —

3538. **Mr McNarry:** It has not been dealt with in the DETI report. As usual, anything coming from these Departments is all waffle and piffle and does not give a direct answer.

3539. **The Chairperson (Mrs Long):** So you want additional information. Is there a seconder for that proposal?

3540. **Ms Ritchie:** Yes.

3541. **The Chairperson (Mrs Long):** Do we have agreement?

*Members indicated assent.*

3542. **The Chairperson (Mrs Long):** The second issue is Ms Ritchie's proposal that we seek information from the Department for Social Development on the profile of people receiving the various benefits within the area of economic inactivity over the last 10 years, and any changes that have occurred.

3543. **Lord Morrow:** And the regions?

3544. **Ms Ritchie:** And the regional variations, including age profiles.

3545. **The Chairperson (Mrs Long):** Is there a seconder for that proposal?

3546. **Mr McNarry:** Yes.

3547. **The Chairperson (Mrs Long):** Is that also agreed?

*Members indicated assent.*

3548. **The Chairperson (Mrs Long):** The third issue is in relation to fraud levels. Could we clarify that? It came from Mr McNarry. Are we talking about statistics for fraud over the same ten-year period?

3549. **Mr McNarry:** I think so. We need to address the impediments to the economy. We could get into paramilitary activity, but we need to know it.

3550. **The Chairperson (Mrs Long):** Do we have a seconder?

3551. **Lord Morrow:** Yes.

3552. **The Chairperson (Mrs Long):** Is that agreed?

3553. **Ms Gildernew:** I am a bit concerned that you are talking about benefit fraud, David. When I was on the Social Development Committee, it was made clear to us that the amount of money lost to the Department for Social Development through fraud was less than the amount of benefits not taken up by those who were entitled to them. That is a higher figure.

3554. **Mr McNarry:** We could link the two. We could look at the balance between fraud and the absence of people taking up entitlements. That is a valid point.

3555. **The Chairperson (Mrs Long):** Are proposer and seconder content with that addition to the proposal?

3556. **Mr McNarry:** Yes.

3557. **Lord Morrow:** Yes.

3558. **The Chairperson (Mrs Long):** Dr McDonnell has been waiting to speak.

3559. **Dr McDonnell:** I want to make the point that Michelle has made. It would be very wrong for the subgroup to suggest that a handful of people fraudulently claiming benefits was having a major impact. There may be fraud, but it is a very small factor. The subgroup needs to understand the various benefits that are available. As a result of our economic circumstances and of attempts to massage unemployment figures, people who had anything wrong with them were moved sideways on to benefits. Once people are on benefits, they presume that they will have them for life.

3560. There is a presumption that once you are disabled, you are disabled for life. We should look at the problem creatively and positively and ask the Department for Social Development and others to devise a programme to get people back to work. That could copy the model in the Irish Republic and allow the disabled to receive benefits for six months or a year, or it could create transitional programmes. From experience, I know that once people get into a benefit trap, it can be extremely difficult for them to get out of it. Frances McCandless described a situation

in which two people in a house are long-term unemployed; if one goes for a job, they both lose their benefits.

3561. If we are concerned about fraud, I will get down to brass tacks so that colleagues understand. Sometimes Joe Bloggs cannot judge very well whether someone is mentally ill. Even if someone can do a, b or c, he may still be incapacitated mentally. Indeed, he may have a severe mental illness that is not physically obvious. A spectrum of factors needs to be considered.

3562. Although I have no statistical evidence to back it up, I suggest that a lot of the increase in benefit claims hinges on mental illness. The numbers of mentally ill people have seriously increased here as a result of 30 years of madness. They have not had that experience in England or the Irish Republic, so —

3563. **Mr McNarry:** I do not disagree with a word of what Alasdair has just said.

3564. **The Chairperson (Mrs Long):** Mr McNarry, I am sorry; Lord Morrow indicated that he wanted to come in on this point. I will come back to you after that. At that point we will have to decide whether to go for this research, because Dr Gilleece has still to present his report.

3565. **Lord Morrow:** Again, David has taken the words right out of my mouth. I do not disagree with anything that Alasdair has said. However, if we are to have a fit economy, we must look at all the issues, and this is one of them. I want to know why the figure for Northern Ireland is 50% higher than in the rest of the UK and 300% higher than in the Irish Republic.

3566. I regularly represent people at tribunals, because they are genuinely entitled to that service. I defend those people and appeal their cases. I already know about the genuine people, so I am not talking about them when I ask what is behind those figures. I support the people whom Alasdair has mentioned, and I have a social conscience. However, I want to know how we get our economy fit for purpose. That is important, and those figures are startling.

3567. **Mr McNarry:** I share the views of Lord Morrow and Dr McDonnell. It is not a question of our sitting here trying to damage anyone.

However, there are few facts and figures to back up some of the things that people say. We need to find those facts and figures to see how big the problem is.

3568. We have a substantial black economy in Northern Ireland, and nobody ever talks about it. Part of it involves people who are on benefits “doing the double”, as it is called. People fraudulently hold down jobs with employers who fraudulently engage them. I do not know how widespread that is, but if it is an impediment to our economy it is within our remit. This is the sort of thing that people talk about in the pub. People talk about the guy down the road. I would not like to think that anyone would talk derogatively about someone who has a mental incapacity.

3569. **The Chairperson (Mrs Long):** The proposal is that we ask for additional information on the levels of fraudulent claims in the past 10 years and on the lack of take-up of benefits in the same period. Is that agreed?

*Members indicated assent.*

3570. **The Chairperson (Mrs Long):** We will move on to Dr Gilleece’s presentation.

3571. **Dr Peter Gilleece (Senior Research Officer, Northern Ireland Assembly):** I will run through a summary of the paper and then move on to some of the concluding remarks.

3572. **Mr McNarry:** This is the report about the Republic of Ireland?

3573. **Dr Gilleece:** It is. The contribution of formal education to economic growth in the Republic of Ireland is of enormous significance. Ireland was one of the first European countries to grasp the economic importance of education. Economists suggest that this up-skilling of the labour force accounts for almost 1% per annum of additional national output over the last decade. Key components of this development are outlined in the paper.

3574. Institutes of technology, for which there is no UK model, arose during the 1970s. Regional technical colleges evolved from innovative policy developments recommended by the OECD in the 1960s.

3575. A link was forged between higher education and the market. The Manpower Consultative Committee, established in 1978, was a forum for dialogue between the Industrial Development Authority and the education system. It recommended an urgent programme of expansion to alleviate shortages and to increase output to meet projected demand. Irish education now has an explicitly vocational component that did not exist 30 years ago.

3576. The view of Government agencies is more likely to lead to new course initiatives or pump-priming by the Department of Education and Science or the Higher Education Authority than any other force.

3577. Participation in upper secondary and tertiary education has risen phenomenally over the last four decades. In 1995 the Republic of Ireland had an above-average ratio of graduates to population and a higher number of persons with science-related qualifications, relative to the size of the young labour force, than all other OECD countries including Japan. In addition, between 1990 and 1995 public spending in tertiary education institutions and on financial aid for students rose by 33%.

3578. More significantly, in view of comments heard today on future development, it has been argued that the most important factor determining the contribution of the education system to economic progress within developed countries is the emphasis it places on sustaining a high level of performance on the part of the bottom half of the ability range. The Republic of Ireland lags behind OECD countries in this respect.

3579. The Irish economy has strategically placed itself as a knowledge-based economy. Successive surveys of foreign-owned firms reveal that two of the important determinants of the decision to locate in Ireland are the availability of skilled labour and the specific skills of the workforce. However, the growth in wealth has not been spread evenly, and overcoming economic and social disadvantage remains a significant issue.

3580. In 2003 the Department of Education and Science invited the OECD Secretariat to undertake a review of higher education to evaluate performance of the sector and recommend how

it might better meet Ireland's strategic objectives. The report identifies new challenges that will have to be overcome if the Government's ambitions are to be realised. The report makes a series of recommendations that call for significant structural change.

3581. To move from being a technology-importing, low-cost economy to an innovation-based technology-generating society requires that Irish tertiary education and research, and innovative indigenous enterprises, have to become the new drivers of economic development and of the country's international competitiveness.

3582. There is a growing phenomenon of technology sourcing FDI, which sees firms seeking access to resources that are only available in the overseas locations targeted. Increasingly, multinational firms are setting up overseas R&D facilities where local conditions are such as to increase the likelihood of innovations emerging. The likelihood of that happening depends upon the local innovations system; the process by which public and private sector institutions, firms and national policies interact and coalesce to generate innovation.

3583. In information and communication technology alone over the last few years, a number of significant developments have been registered under this new strategy. For example, and it is one of many given in the paper, IBM has announced further significant investment in its Irish R&D software facility in Dublin. A director of the company explains that its decision was influenced by the availability of the necessary skills, the strong support of the Industrial Development Agency and the growing emphasis on scientific research by the Science Foundation of Ireland.

3584. The key issues emerging are: building a strong education system; maximising investment in R&D; and developing a local innovation system. All are key to developing the capacity necessary to add value for indigenous interest, and in the longer term to be attractive to technology sourcing FDI.

1.30 pm

3585. I will move to the concluding remarks on page 14.

3586. Investment in education is fundamental to the growth of economies whether the approach is to provide the skills and intellectual capital base to attract foreign direct investment as in the Republic of Ireland, or a model of building the educational base to support indigenous interests.

3587. In the case of the Republic of Ireland a very strong enabling environment, with skilled labour and specific skills of the workforce, was in place to complement the low level of corporation tax.

3588. A number of key milestones have been identified over a period of forty years, which, under the right conditions, conspired to produce a highly successful economy. Some key lessons may be learnt from that.

3589. I now turn to the education system.

3590. A consistent feature of this evolution has been the objective assessment of government policy. For example, at key junctures the Republic of Ireland have invited analysis of their education policy by the OECD. The OECD reports of 1964 and 1965 have been described as landmarks. In 2003, at a key crossroads in the development of the education system, the OECD were again invited to review higher education policy. This strategic approach has in the past ensured that there was a sound basis for the growth of economy.

3591. The subgroup has heard criticism of the divide between policy development and implementation in Northern Ireland. There has also been criticism of our system of educational provision.

3592. Victor Hewitt spoke earlier about the amalgamation of Departments' policy wish lists versus the greater focus in the Republic of Ireland.

3593. I shall turn to participation in education. It has been argued that the most important factor determining the contribution of the education system to economic success within

developed countries is the strength of the emphasis on encouraging those in the lower ability range.

3594. The subgroup has also heard evidence of the failings of education in economically disadvantaged areas.

3595. On the knowledge-based economy, my paper says:

*"It may be the case that the foundations upon which we hope to build the knowledge economy in Northern Ireland are appropriate, however there is no certainty and evidence would suggest that, based on delivery to date, there are failings in the system. Perhaps consideration should be given to an ambitious, targeted and comprehensive review of educational policy with specific reference to its impact on economic development, at all levels in Northern Ireland, similar to the objective scrutiny that the Republic of Ireland has invited."*

3596. I move on to the section on higher education and the market. In the Republic of Ireland the interchange between higher education and the market is to a considerable extent mediated through government agencies. Irish education has now an explicitly vocational component.

3597. Robin Newton mentioned apprenticeships and training schemes. The UK is unique from the rest of Europe in that training is not matched to real jobs. Appendix 1 of the paper contains a critique of apprenticeship schemes. The paper also highlights that, in the Republic of Ireland, the change centred around the non-university sector, and the universities themselves ultimately adapted to the vocational imperatives which had become part of the climate.

3598. My paper goes on to state:

*"Consideration may be given to the adoption of a model similar to the Manpower Consultative Committee, as a forum for dialogue between Invest Northern Ireland and the education system."*

3599. And, looking ahead to the challenges:

*"The next stage of development for the economy in the Republic of Ireland will place*



*greater emphasis on research and innovative indigenous enterprises as the new drivers of economic development. In Northern Ireland there is a need therefore to address the barriers to business investment in universities, improve the current financial and fiscal mechanisms of support for R&D activity”*

— primarily within universities —

*“and reconsider our attitude to risk in the support of R&D activity.”*

3600. Technology-sourcing foreign direct investment represents a significant change in strategy, dependent on a strong local innovation system. My paper states:

*“Moving towards foreign direct investment with a reduction in corporation tax may be considered a longer term goal, perhaps over 5 to 10 years. There may be a need to ensure that there is sufficient capacity to take full advantage of any new corporate tax regime.”*

3601. The change in emphasis to technology-sourcing FDI may be particularly irrelevant in the light of the gamble scenario described by Victor Hewitt.

3602. **The Chairperson (Mrs Long):** Thank you, Dr Gilleece, for your presentation.

3603. **Ms Gildernew:** That was an excellent paper, Peter. The reports that the Twenty-six Counties invited the OECD to write in 1964 and 1965 predated its corporation tax regime and many of the factors identified as drivers of economic growth.

3604. As a result of that, the subgroup must strongly recommend that we invest in education from birth right through, as Ms McCandless said. Rolls are declining, and schools are being closed down left, right and centre. There may need to be some rationalisation, but here is a unique opportunity to turn those smaller classes around, to improve the pupil-teacher ratio by getting more one-on-one teaching, and to support schools, rather than close them down willy-nilly across the Six Counties without taking that into consideration.

3605. We may also have to consider seriously the amount of money spent on arts degree

courses in universities, as opposed to vocational training in further and higher education. This is thought-provoking and proves that incentives are one thing, but the education and skills of our young people are paramount — that is probably the most fundamental factor in ensuring the future growth of the economy. Fair play to you, Dr Gilleece, it is an excellent paper.

3606. **Mr Newton:** There is a great deal in this paper, and it is worth a detailed read. I have only two comments. I am concerned that the word “education” is only seen in the academic sense: it should also be seen in the vocational sense.

3607. **Dr Gilleece:** Education and skills; training.

3608. **Mr Newton:** Yes. I would have thought that the development of an entrepreneurial ethos would have been mentioned in the Lisbon strategy. Entrepreneurship should be delivered as a core subject from primary education, so that it feeds into the higher echelons of education.

3609. **Ms Ritchie:** I thank Dr Gilleece for his in-depth paper and for the analysis that he has carried out into the system that pertains in the South of Ireland.

3610. There is a need for a re-examination of educational attainment in Northern Ireland. When we think of education — and perhaps I am thinking similarly to Robin Newton — people focus on academic education. Twenty-five years ago, people did concentrate on vocational education, but in the pursuit of academic qualifications they forgot about the vocational side; they were anxious to obtain O levels, A levels and a university education. They forgot about vocational skills, and they forgot about those children who did not have the capacity to pursue an academic line and who would have been better suited to apprenticeships or working in the likes of the mechanical and construction fields.

3611. We must consider the recommendations made by the Construction Employers Federation about the nature of apprenticeships: they should be pursued by 15- and 16-year-olds in secondary education, and there should be a transition to the factory floor or to the construction industry.

3612. We must examine why there has been a dearth of entrepreneurial spirit in the North of Ireland and why there is a regional variation in that. In an area such as Kilkeel there is considerable entrepreneurial spirit, not solely in the fishing industry, but also in response to the downturn in that industry, and people have used their skills in other industries. We should consider case studies to determine how certain areas have built on that entrepreneurial spirit.

3613. The subgroup should recommend that the OECD examine what has been done in the area of educational attainment, both generally and more specifically in relation to vocational skills, and assess why there has been a downturn in the number of people who have felt inclined to go into vocational training. Parents who force children into academic education rather than ensuring that children's education is geared specifically to their abilities play a large part in that. A great deal of research needs to be carried out on that.

3614. Dr Gilleece's report shows how the Republic of Ireland has been able to move from an agrarian economy in the 1960s to one able to attract FDI and concentrate on technological industries. However, I know from friends who have worked in the technology industry in the Republic that some have had to relocate to lower-cost economies, and we must be mindful of that need and be aware of the difficulties.

3615. We must also examine what our universities are doing in the technological field and whether they are training people to apply their knowledge to the appropriate skills. As Michelle said earlier, those of us who left university equipped with degrees in the arts that were of little value to employers need to encourage people to challenge themselves to train vocationally.

3616. **Dr Birnie:** I thank Dr Gilleece for his excellent summary. I have two questions, or perhaps observations.

3617. First, ideally the subgroup would like some sort of tabulation, to include both Northern Ireland and the Republic of Ireland, showing European continental comparisons of the percentage of the labour force that is qualified

to each of the five educational levels. I know that that is a difficult task, because I tried to do it about 15 years ago, and statistics are never set out on a comparable basis.

3618. My second observation is designed to inject a little scepticism, or perhaps realism, with regard to the contribution of education to economic growth. Some of it is a product of timing, as I sense was implied in Dr Gilleece's paper. The big burst in public spending investment in post-11 education in Northern Ireland occurred after the Education Act 1944, and the benefits to economic growth came about 16 or 18 years later, after people had moved through the education system.

3619. In the Irish Republic, as has been pointed out, a similar wave of investment in secondary — and later tertiary — education began much later than elsewhere in north-west Europe, from the mid-1960s onwards. Sixteen years on brings us to the mid-1980s, and the Celtic tiger economy began in the late 1980s. Therefore, economic growth is a product that comes some years after the investment starts.

3620. Educationalists and economists still debate whether investing in education has a permanent effect on an economic growth rate. Those who believe that it does can be optimistic and say that the South's investment in education will lead to economic growth remaining high for the foreseeable future. There is an alternative view that diminishing returns will set in, and that you cannot keep increasing the percentage of graduates in your labour force. Once it gets above 50% — as is the case in Northern Ireland — arguably the benefits to the economy decrease.

3621. I am just introducing some necessary scepticism or realism. Simply putting money into the education system does not necessarily produce extra percentages of economic growth at the other end of the pipe.

3622. **Ms Gildernew:** Esmond, are you talking about types of education? A person may be very well-educated person, perhaps an expert on ancient Greece, but no good for the economy.

3623. **Dr Birnie:** We need to reflect on that debate. I heard Margaret almost apologising for

doing an arts subject. We need to be very careful. If a degree helps you to think, it will have produced a benefit generally for whatever career you end up in.

3624. **Ms Ritchie:** Flattery will get you nowhere. *[Laughter.]*

1.45 pm

3625. **Dr Birnie:** I think we need to be very careful about sticking everyone into technology courses. We might teach people in the technologies of today, which may not be the ones that are around in 10 years' time. We must try to strike a balance.

3626. **The Committee Clerk:** Could I ask Dr Gilleece —

3627. **The Chairperson (Mrs Long):** Dr Gilleece will sum up at the end. He is taking on board the questions that are being asked.

3628. **Mr Neeson:** To me, in drawing direct links between the economy and the educational system the main issue is that the system in Northern Ireland is wrong. Departments do not work together, and there is no joined-up government. That has become evident in several evidence sessions. Looking at Ivan McCabrey's letter to us today, and coming from a teaching background as I do, I recognise the weaknesses in the system. It is important that our report reflect Michael Maguire's comments on responsive education from primary level up.

3629. Education in Northern Ireland is about to be reformed, and it is important that we get it right and address it as an Assembly. I do not agree with the 11-plus, but I certainly do not agree with the proposed replacements. The relationship between the needs of the economy and society as a whole is vital if we are to achieve the 140,000 jobs that the Northern Ireland Business Alliance has targeted.

3630. **Lord Morrow:** It is a pity that we did not have Dr Gilleece's paper before the meeting. That is no one's fault; it is just the way things are.

3631. A key issue is building a strong educational system, which no one can gainsay. The technical colleges argued that they should be afforded university status. Are we trying to

find the highest common denominator, or the lowest? An economy should always reach for the highest.

*"Most findings from studies of the relationship between labour market earnings and initial education conclude that an additional year of schooling is likely to yield an annual 'rate of return' for individuals of 8-10%."*

3632. That is very significant and very telling. That issue must be "got out there", as the saying goes, and really demonstrated.

*"Similarly positive results emerge from macro-economic growth studies on the impact of additional schooling on long-term growth in GDP."*

3633. That is of great relevance. I would like to hear Dr Gilleece elaborate on that a wee bit. I have other points to make, but I will stop now. I can see that everyone is getting hungry.

3634. **The Chairperson (Mrs Long):** We can ask Dr Gilleece to deal with that during his summing-up.

3635. **Dr McDonnell:** Chairperson, I do not want to come between colleagues and their lunch. Most of the points that I wanted to make have been covered already. I am delighted that colleagues have recognised Dr Gilleece for the gem that Sean Neeson and I encountered some years back on the Committee for Enterprise, Trade and Investment.

3636. **Lord Morrow:** Did you find him?

3637. **Dr McDonnell:** Sean and I invented him.

3638. **Mr Neeson:** We groomed him.

3639. **Dr McDonnell:** Yes, we groomed him. Dr Gilleece was an excellent resource and an excellent support to us back then. Rather than compliment him on yet another gem of a paper, I will leave it at that, Chairperson, because there is no point in my repeating what others have already said.

3640. **Mr McElduff:** I want to express my appreciation to Dr Gilleece for his presentation. There would have been real value in having a formal submission after which we could have

asked questions, but, given the time constraints, that was not to be.

3641. I agree with Robin Newton, who said that the briefing paper requires detailed reading. We could perhaps revisit the paper when we come to consider the written evidence.

3642. **The Committee Clerk:** We will be doing that.

3643. **Mr McElduff:** The convergence of some of Victor Hewitt's points about the historical context for Ireland's success and Dr Gilleece's reference to T K Whittaker's 'Economic Development' paper of the late 1950s is interesting.

3644. **The Chairperson (Mrs Long):** Esmond Birnie has proposed that further research is required into the percentage of the population that is qualified to each of the five levels, compared with the Republic of Ireland, Great Britain and other European countries. That may be something on which members need to agree first. Before we do that, I invite Dr Gilleece to sum up.

3645. **The Committee Clerk:** I can ask the Department for Employment and Learning for that information, but what do you mean by "the five levels"? Are you talking about Key Stages 1, 2, 3, and so forth?

3646. **Dr Birnie:** Dr Gilleece can elaborate on this. Level 5, I think, refers to a PhD, level 4 to a degree, level 3 to a HND or technical qualification, level 2 to an apprenticeship and level 1 to GCSEs. It is something like that. We are not talking about Key Stage qualifications. It is the level of so-called paper qualification that a person has attained.

3647. **Dr Gilleece:** I think that I managed to catch all the comments. I would like to quickly respond to some of them.

3648. Dr Birnie mentioned that he is sceptical of education's contribution to economic growth and of the benefits of producing graduates. Robin Newton mentioned the former point as well. It is about education as a whole — the skills, the vocational training, and all the rest. I refer in my briefing paper to the successful

economies in the Nordic countries, which have superb educational systems. As Frances McCandless said, people in those countries from socially deprived backgrounds are experiencing no educational disadvantages whatsoever. The opposite happens to be true in Northern Ireland. Equally, there is the same problem in the Republic of Ireland. Education seems to be the means of helping people become more economically active.

3649. The Scandinavian countries have a superb educational system. The whole philosophy there is not about the process of education, but about education as a fundamental right. Pupils there are encouraged to progress right through the educational system. There is an ethos of high tax and strong social welfare in Scandinavia. Also, among the EU countries, they account for the highest R&D spend as a percentage of GDP and, as a result, their economies are very successful. That success seems to be due to their investment in education, R&D and innovation.

3650. I agree with Sean Neeson. We are on a treadmill of producing strategies and policies with no real opportunity to evaluate their success objectively. In researching this subject, one of the things that struck me — I mentioned it in the paper that I presented on 3 August — is the ability of civil servants and politicians to sit back, open the doors and ask people to tell them what they think of what they are doing and whether they are doing it wrong. When the Republic of Ireland took that approach, particularly in the 1960s, it opened itself up to ridicule. The 2004 OECD examiner's report, 'Review of National Policies for Education: Review of Higher Education in Ireland', is significant because it proposed a change in direction.

3651. Barry McElduff mentioned T K Whittaker. An interesting point, which touches on the paper that I presented last week, is that T K Whittaker was a civil servant who, at the age of 39, was promoted to the position of permanent secretary. Seán Lemass sponsored him and gave him the opportunity. He was innovative and creative, and he was given the opportunity to record his thoughts and work



outside the rigid Civil Service system. T K Whittaker was an important catalyst for the changes to the system in the Republic of Ireland. He was originally from Rostrevor.

*Adjourned at 1.59 pm.*

3652. **The Chairperson (Mrs Long):** I thank Dr Gilleece for the contribution that he has made to the subgroup with the paper and the answers to members' questions. There will be an opportunity to explore the paper in more detail during the sessions set aside to consider written evidence.

3653. Dr Birnie has proposed further research. Does anyone wish to second that proposal?

3654. **Ms Ritchie:** I second it.

3655. **The Chairperson (Mrs Long):** Do members agree?

*Members indicated assent.*

3656. **The Committee Clerk:** Peter is on holiday next week. Therefore, he will not be available on 15 August to answer any questions that arise from his paper. I can ask the Department for Employment and Learning to provide the additional statistics. Dr Gilleece, do you have access to those?

3657. **Dr Gilleece:** Not in the time available, but I can gather them when I come back from leave. I will probably be on leave for most of the following week as well, but when I come back, I will address that issue if it is still relevant. As Dr Birnie said, without the statistics, it is difficult to compare like with like.

3658. **The Chairperson (Mrs Long):** OK. That will be noted.

3659. Do members have any other items of business that they wish to raise?

3660. **Some Members:** No.

3661. **The Chairperson (Mrs Long):** Good.

3662. The next meeting will be held at 10.00 am on 15 August, when the subgroup will consider written submissions. Members have been provided with a draft agenda. To repeat what I said earlier, it would be helpful if those members who are going to attend that session are given advance access to the written evidence to give them the opportunity to study it.



## Tuesday 15 August 2006

### Members:

The Chairman, Mr David McClarty  
Mr Roy Beggs  
Mr David Ford  
Mr Kieran McCarthy  
Dr Alasdair McDonnell  
Mr Barry McElduff  
Mr Mitchel McLaughlin  
Mr David McNarry  
Mr Sean Neeson  
Mr Ian Paisley Jnr  
Ms Margaret Ritchie  
Mr David Simpson

*The subgroup met at 10.10 am.*

*(The Chairman (Mr McClarty) in the Chair.)*

3663. **The Chairman (Mr McClarty):** Will members please switch off their mobile phones? Do not keep them on silent. Unfortunately, some of the recordings of meetings of both the Committee on the Preparation for Government (PFG) and the subgroup have been lost on a number of occasions because of interference from mobile phones.

3664. We have received a number of apologies. Roy Beggs is deputising for Esmond Birnie, and David Simpson is deputising for Peter Weir. Are there any other apologies?

3665. **Mr Neeson:** I will be leaving early, so Kieran McCarthy will be attending in my place.

3666. **Ms Ritchie:** Alasdair McDonnell will be arriving shortly.

3667. **The Chairman (Mr McClarty):** The next item on the agenda is the draft minutes of the meeting of 10 August 2006. Are members content that those are an accurate record of proceedings?

*Members indicated assent.*

3668. **Mr Simpson:** Mr Chairman, I shall declare an interest in the meat industry and in

the manufacturing sector in Northern Ireland. If you need finer details, I can certainly oblige.

3669. **The Committee Clerk:** Chairman, we will take advice from John Torney, Principal Clerk to the Committee on Standards and Privileges, at a later date.

3670. **The Chairman (Mr McClarty):** The next item deals with matters arising. The subgroup sent a memorandum to the PFG Committee to request the opportunity to take evidence from the Northern Ireland Youth Forum after the date of the deadline for its report. As requested, advice was sought from the PFG Committee on how the Northern Ireland Youth Forum's views might be facilitated.

3671. **Mr McNarry:** I hope that we are pursuing that and that it can be expedited. We are grateful for the extension that I hope will be granted. I hope that that extra time can be used purposefully.

3672. **The Committee Clerk:** Chairman, we have received a response from the Clerk to the PFG Committee agreeing that the subgroup can meet after 25 August to take evidence from the Northern Ireland Youth Forum and submit that evidence as an addendum to the report. However, it is important that that happens before any plenary meeting takes place.

3673. **Mr McNarry:** Taking evidence from the Northern Ireland Youth Forum has been deemed to be the best approach. Can we ensure that it is and that it falls within the timescale? The key point is that some young people will come to talk to us. People were to ascertain whether any other bodies could be approached or any other avenues could be explored. Work on that may still be progressing.

3674. **Mr Simpson:** I agree with David.

3675. **The Chairman (Mr McClarty):** We should also consider the letter from the Secretary of State to Jim Wells.

3676. **The Committee Clerk:** We wrote to the Secretary of State on 20 July 2006 to ask about the prospect of Ministers and officials attending meetings. On 31 July, we wrote to him about a Minister's being absent on leave and about not being notified about cross-cutting issues, such as the establishment of a working group on industrial rating.

3677. **The Chairman (Mr McClarty):** Do members have any questions?

3678. **Mr McNarry:** If we are allowed to use the word "pathetic", I will use it. That is just what that is: pathetic. We can do nothing about it, but the subgroup has a duty and has been getting through its work, so far.

3679. The evidence that the officials who represent some Departments gave was not as clear as it might have been. At least one of those officials very strongly indicated that the Departments would report to the Minister. They said nothing to us when we probed them, and they seemed to be in difficulty. That is why it is unfortunate that the Minister has been unable to attend.

3680. One particular Minister has a whole month away from her three offices. That seems a remarkable period of leave to arrange in the knowledge that the subgroup and the Preparation for Government Committee were meeting, and that there were certain crises looming in at least one of her Departments.

10.15 am

3681. That was just a rant, Chairman, and I am grateful that you allowed it. We cannot compel those Ministers to come before us. I hope that, somewhere along the line, the PFG will be able to bring the Secretary of State along to answer some questions, including those on which we have been unable to get answers.

3682. **The Chairman (Mr McClarty):** You are welcome to the rant. I hope that it is not the precursor to a rave party.

3683. **The Committee Clerk:** If the subgroup would like to extend its work beyond 25 August, subject to PFG approval, it might be possible for the Minister to come along at a later stage.

3684. **Mr McNarry:** That is fine. Perhaps we were slightly at fault in that the dates that we identified were being worked on, and then we changed our minds. Quite correctly, we decided to hear as much evidence as possible before calling the Minister to discuss it. I am not sure whether the report would benefit, but the subgroup might gain respect if we could arrange to put our findings and concerns to the Minister. We could find out what she and her officials think, and put that evidence in an addendum to the report.

3685. **The Committee Clerk:** The subgroup can seek an extension beyond 25 August to do additional work, which might include taking evidence from the Economic Development Forum (EDF), the Minister and others. The only caveat is that the PFG must agree to that.

3686. **Mr McNarry:** There is every likelihood that the PFG will agree; it is a reasonable request. However, we should not lose sight of the fact that our report must go to the PFG, to the Business Committee, to the Secretary of State and then, I hope, for debate in the Assembly. The dates of the plenary sittings have been put back. If 108 Assembly Members are to debate these matters, it is important that they have some knowledge of the Minister's thinking. The difficulty, however, will be in meeting the timescale.

3687. **The Chairman (Mr McClarty):** Thank you, David. Members should note that Barry McElduff is in attendance and is a substitute for Michelle Gildernew.

3688. **Mr McElduff:** Mitchel McLaughlin will be along shortly.

3689. **Ms Ritchie:** Notwithstanding the unavailability of Ministers during an alleged holiday period, we were expected to be here to continue the work of the subgroup.

3690. Also, the Secretary of State's letter says in his letter that our remit is:

*"to look ahead, and make recommendations to a restored Executive on the economic challenges facing Northern Ireland, rather than to scrutinise current policy."*



3691. In response to that, I say that — in order to look ahead and to pinpoint a way forward on the economic challenges — we must look at current policy to see where the impediments lie, where the challenges are, and to identify the best possible fiscal arrangements. To do that, we must talk to the Minister.

3692. That is an example of sleight of hand by the Secretary of State in order to get himself off the hook, yet again. We must see the Minister on her return from leave. I hope that that could happen even after the submission of our report, because that meeting might yield important evidence.

3693. **The Chairman (Mr McClarty):** Are there any other comments on that matter?

3694. **Mr McElduff:** I share the concerns of David McNarry and Margaret Ritchie in respect of Ministers being unavailable to come before us. That is a reminder that direct-rule Ministers are less accountable and more remote and inaccessible than local Ministers would be.

3695. **Mr Paisley Jnr:** I agree that the Minister ought to have come before us. The Secretary of State insisted that this work be done and, indeed, compelled us to come here, under threat of redundancy. Despite that, the Minister has not made herself available. We should make the strongest representations to the PFG Committee to the effect that we want to extend our discussions to give ourselves the opportunity to call and question the Minister on all of the issues, so that we can complete our work. Without that, our work would be incomplete. It is essential, as was agreed at the first meeting of this subgroup, that the Minister appears before us.

3696. **Mr Neeson:** We were given a number of days' notice to convene this subgroup. Many of us have given up a substantial amount of time during the summer recess, and we have been prevented from carrying out basic constituency work. If we can make that sacrifice, so should the Minister.

3697. **Mr McNarry:** May I propose, therefore, that we write to the PFG Committee to ask it to agree with us and organise the appearance of the Minister?

3698. **The Chairman (Mr McClarty):** Do we have a seconder?

3699. **Mr McElduff:** I second that.

3700. **The Chairman (Mr McClarty):** Do we have consensus on that matter?

*Members indicated assent.*

3701. **Mr Neeson:** I was going to propose that we write to the Prime Minister, but he too is on holiday at the moment. *[Laughter.]*

3702. **Mr McNarry:** We should go and see him.

3703. **Mr McElduff:** Does anyone have any idea where the Taoiseach is? We could write to him as well.

3704. **The Chairman (Mr McClarty):** Item 4 of our agenda concerns additional information provided by witnesses. Members will find that information at tab 3 of their packs.

3705. **Mr Simpson:** Mr Chairman, may I go back a step to the letter from the Secretary of State concerning the new subgroup on industrial rating? As Margaret Ritchie said, we were expected to be here during the summer months to facilitate the work of this subgroup. I am sure that everyone will agree that it was difficult to ensure consistency and continuity in briefing Members.

3706. I spoke with Mr Hanson's Department on Friday 11 August. As of that date, his Department had not even met with those concerned with rating to discuss the remit of that subgroup. No one has been nominated to sit on the rating subgroup. I am expecting a phone call before the end of this week to get some information on that matter, and to see what industries and individuals will be represented. That is a despicable situation, coming several weeks after the Secretary of State announced that measure for the industry. Thus far, that meeting has not taken place because of the summer break, but this subgroup was expected to meet.

3707. It is despicable that the rating subgroup is not even in place, and we need a letter or some form of representation to Mr Hanson's office to find out what is happening and who will make up the subgroup's membership.

3708. **The Chairman (Mr McClarty):** OK. We are on item 4 of the agenda, which concerns additional information received from witnesses.

3709. **Mr McNarry:** I am sorry, Mr Chairman. Mr Simpson was making a proposal, and I will second it.

3710. **The Chairman (Mr McClarty):** OK. Are we all agreed on that?

*Members indicated assent.*

3711. **The Chairman (Mr McClarty):** Members will find several items of additional information at tab 3 of their packs.

3712. The Federation of Small Businesses submitted written evidence on the relationship between small businesses and the Strategic Investment Board (SIB). Enterprise Northern Ireland's written evidence included projected costs for interventions and incentives to encourage family businesses.

3713. The Department of Education (DE) provided the subgroup with information on what the business sector requires of the education sector, and statistics on GCSE and A-level qualifications from 1992 to 2005. The Department for Employment and Learning (DEL) submitted a consideration paper, containing information on the available number of full-time education places, and provided us with information that David McNarry requested on population of working age by highest qualification in 2005.

3714. The Department of Finance and Personnel (DFP) provided information that the Principal Clerk requested on tax variations, and the Business Alliance provided information summarising its oral presentation.

3715. I know that time was short, but I hope that members will have had an opportunity to read those submissions. Do any members wish to comment on that matter?

3716. **Ms Ritchie:** In its written evidence, the Federation of Small Businesses mentions the lack of direct input to the small-business community by SIB. The federation also mentioned that matter during its oral evidence. Two days later, when SIB representatives came here to give evidence, I asked them if that was true, and

they denied it. They said that, in the supply chain, small businesses in Northern Ireland have opportunities to tender for such work, and that some of them had already done so. I know that that would be disputed by the Construction Employers Federation, but the Federation of Small Businesses has probably placed too much emphasis on that. The subgroup should temper that in some way.

3717. **Mr Beggs:** The Department of Education has forwarded figures on GCSE and A-level comparisons with England and Wales. Further information is required on some points to make them more relevant and meaningful. First, a footnote indicates that the GCSE figures are expressed as a percentage of pupils in year 12 in Northern Ireland, but as a percentage of 15-year-olds in England and Wales. I am curious as to whether that can result in differences. For instance, someone may be aged 16 at the start of their GCSE year, and that may enhance Northern Ireland figures, as there would be an older group of children involved. Therefore, I would like further information from the Department, stating what effect it thinks the different criteria have, and why it uses a different measuring method from the rest of the United Kingdom.

3718. Secondly, a footnote states that the A-level figures are expressed as a percentage of pupils in the final year of an A-level course in Northern Ireland. It would also be useful to be told the percentage of children of that age who are successful, because one does not learn from those figures whether more or fewer children in Northern Ireland do A-Level-type courses; the figures simply measure the results of those who take the courses. Further information for clarity would be useful.

3719. **Mr McElduff:** The Business Alliance's concluding remarks mention the need for a stable devolved Government. That is a reminder to elected representatives to do all within their gift to work together to reinstate the political institutions without delay. Therefore, I reiterate the strong message from the Business Alliance about the need for political stability and the restoration of the political institutions. That is

evidence-based; we have heard it from many contributors over recent weeks.

3720. **The Chairman (Mr McClarty):** If there are no further comments, we will move to an open session and item 5 on the agenda, which is the consideration of the written evidence.

3721. First, I will ask Paul Moore, the Clerk of Business, to provide an analysis of the written submissions that we have received.

*10.30 am*

3722. **Mr Paul Moore (Clerk of Business):** I am pleased to have the opportunity to present my paper, which is entitled ‘Summary and Analysis of Written Evidence Provided to the Economic Challenges Sub-group’. I am conscious of the fact that it was issued by email only last night, not least because I was working on it until then, so members will probably not have had a chance to read it.

3723. I should perhaps preface what I am about to say with a health warning — I am not an economist, nor has economic development been an area to which I have been exposed professionally. However, that allows me to bring a fresh perspective to the arguments that have been presented in the submissions. I have experience in sifting through reams of Committee evidence and extracting points, which members, hopefully, will find salient to the inquiry’s terms of reference. I was happy to do that on members’ behalf.

3724. My paper is the result of a quick run through each written submission, and that is simply a consequence of the timescales to which the subgroup is subject. There are papers in the members’ packs that I have not covered, so it is probably easier to point to the submissions and extra evidence that I have covered. Those appear in the appendix to the paper. I hope that my paper will provide positive ideas, stimulate discussion and debate, and that it will assist members in reaching conclusions and making recommendations.

3725. I will briefly outline the key areas and details of what the written evidence revealed. One striking feature is that the issues emerging from the written evidence were the same as, or

consistent with, all that emerged from previous oral evidence sessions. There seems to be consensus among the business community, Government and others who commentate on the economy, on the impediments to economic growth. One submission highlighted the fact that the key impediments have been correctly identified in the Department of Enterprise, Trade and Investment’s ‘Economic Vision for Northern Ireland’. That document also appears to have captured the four drivers thought necessary to overcome the economy’s structural weaknesses, and people seem to have bought into those.

3726. The subgroup must comment on whether the political parties represented here also endorse that economic vision, and, if not, where the disagreement lies. Members should also consider their views on the EDF, because its papers showed evidence of an ability to challenge the Government’s delivery of economic development policies and make rational recommendations. Therefore, members may wish to consider whether they endorse the EDF and its work, and how that fits into the system.

3727. I have tried to use headings that the subgroup discussed when considering the issues, so I will begin with ‘Public Sector delivery failure’. There is consensus that current policies will not have the desired effect of improving the economy, and doubts have been expressed in written evidence about whether Government Departments are capable of delivering effective economic development policies, particularly in their current format. While the optimum number of Departments is not a matter for the subgroup — the PFG Committee will probably examine that — there is no doubting the consensus that the present number of Departments is too high. That is particularly apparent when a comparison was made in Mivan’s submission between the involvement of seven Departments in economic development in Northern Ireland, and one agency with primacy in the Republic of Ireland.

3728. That said, while everyone agrees that the economy must be rebalanced between the private and public sectors, the written evidence

also shows consensus that that should not be achieved simply by slashing the public sector. Indeed, the proposals for improvement suggest that there should be better, more focused, joined-up Government intervention, perhaps through improved implementation of better strategies. Everything must be improved, but that does not mean simply cutting off the public sector. It is clear from the written submissions that people believe that the public sector has a significant role to play in helping the economy's transformation.

3729. With regard to infrastructure and the investment strategy for Northern Ireland, another key theme that has emerged is that that strategy has generally been welcomed. However, people can see that additional revenue is required in order to pay for the proposed £16 billion of infrastructure investment. Some believe that therein lies the opportunity for a peace dividend or for an economic package to cushion the effects of rises in water and industrial rates that have been earmarked. Members have received a further breakdown of that £16 billion figure. In my paper, I have pointed out the potential difference between the answer to a question, which was that the money is not new, and the Secretary of State's recent announcement that that £16 billion was the peace dividend.

3730. Members may also be encouraged by the additional information on the Strategic Investment Board's 'Investment Delivery Framework'. That has been broken down into its various priorities. The 'Economic Growth and Competitiveness' heading dovetails into sub-headings that include the four economic drivers that have been identified in the Department of Enterprise Trade and Investment's 'Economic Vision for Northern Ireland' document. I am aware of the linkages between the SIB and DETI, but perhaps members will think of those as attempts to grow the small, green shoots of joined-up government.

3731. The evidence also identified concerns about the capacity of local firms to play a major role in the investment strategy. From what I have heard in evidence and in members' discussions, you are likely to see that as an

important area that must be addressed by a new Executive.

3732. The Committee's work and the written evidence have flushed out several issues with regard to planning. My paper covers further evidence of planning as an impediment. That message has been consistent. In the interest of balance, the paper considers in detail the Planning Service's written submission in the context of the criticisms that have been levelled at it. One could argue that the views expressed in the Planning Service's written submission are merely excuses. However, its acknowledgement of the role of planning in economic development and its declared preparedness to restructure in the face of change could be viewed positively.

3733. Evidence gathered by the Committee may have identified areas where there is potential to push the Planning Service towards further change, such as in forward planning, allocation of resources, and interaction with and policing of other Department of the Environment agencies. One might consider that the Planning Service's reference to managing investment-strategy projects through its own procedures might smack of the public sector looking after its own. That could, however, be viewed another way — as a sign of willingness to engage at a strategic level, with the subsequent benefits that that would create at an operational level. Perhaps that could also be built upon in the private sector.

3734. The evidence that relates to the skills deficit has been of great interest. In particular, the Department's skills strategy seems to have achieved significant buy-in from, for example, the Economic Development Forum, and contributors to that forum, such as the Northern Ireland Business Alliance. That matter has also been mentioned in the written submission.

3735. As ever, what will count in the long run is how that strategy is translated into tangible outputs and whether sufficient resources are made available to successfully implement it. That was highlighted in the evidence. The Business Alliance's submission identified several interesting options where additional



resources might make a difference, which members will, no doubt, wish to consider.

3736. It is entirely possible for consensus to be achieved on some of the issues that have been highlighted in the written and oral evidence. The evidence shows that no one claims to have all the answers or that all the answers have been articulated. It has been suggested that further work and research are necessary. That has led to one or two submissions urging care on the part of the subgroup. The Business Alliance, for example, cautioned against the subgroup drawing any hasty conclusions that may result in inappropriate actions.

3737. That said, however, some of the evidence could be interpreted as pushing the subgroup towards making hasty conclusions. Strong arguments have been made — for example, the introduction of an enhanced tax credit for R&D. One written submission calculated the potential net cost of that to the Exchequer at £10 million. Research suggests that that is a better option than direct grant aid to firms. Given the other evidence, could an Executive advocate that approach? Given that the take-up of the current R&D tax credit is 24%, could the subgroup recommend enhancing the current tax credit even further?

3738. The subgroup has heard how difficult the situation is and how people cannot be bothered to avail themselves of the R&D tax credit. Without first ensuring that those shortcomings are identified and corrected, could an Executive ignore the evaluations of earlier grant schemes, which suggest that they are effective in promoting R&D? The subgroup may wish to steer clear of some of the hasty conclusions that others may wish it to make.

3739. All the evidence, however, has drawn together many shades of opinion and will form valuable contributions for debate. Another proposal was to reduce corporation tax, which has been very strongly recommended. Many written submissions agreed that it would act as an incentive to foreign direct investment.

3740. Mivan could be considered a potential beneficiary of such an approach. However, that company sounded a note of caution in relation

to reducing corporation tax. Mivan's submission pointed to evidence that suggests that such a reduction would be of limited value in stimulating an indigenous small-firms economy, advocating more rigorous and robust independent economic research into the benefits of a reduction in corporation tax. The subgroup may well agree or may think that there is enough evidence already.

3741. It is unlikely that the subgroup will want to draw hasty conclusions, not least because they may lead to political fallout for members and their parties. However, the subgroup now has a clear evidence base to allow principles to be adopted and for travel in certain directions to be recommended to the Preparation for Government Committee and, it is hoped, eventually endorsed by the Assembly. I hope that my paper has helped in the subgroup's deliberations.

3742. **The Committee Clerk:** Through the evidence that has been heard and the questions that have been answered, clear directions have been identified in uncontroversial areas such as the need to build skills that link to current and future business needs and the need to focus on innovation in R&D.

3743. The subgroup must be careful about what fiscal incentives it recommends so that all the eggs are not put in one basket. The subgroup's report is not a recommendation to the Secretary of State, but a recommendation to the Executive, so the subgroup will have to deliver on it.

*10.45 am*

3744. The information infrastructure is very clear. The issue is very much the failure to deliver within reasonable time frames and the need for joined-up government and political stability. All that is clear from the evidence that has been received, and I do not think that many parties would disagree with that.

3745. There is, however, a lack of clarity thus far on the specific fiscal incentives that any package must contain, and that is where there is room for differences of opinion. It will be important for the subgroup to reach consensus, because that would reinforce the strength of the report's recommendations.

3746. Nothing in the written evidence contradicts what the subgroup has heard in the oral presentations. The subgroup has collected a huge amount of evidence, and the job now is to make sense of it. Members will receive a draft report on Tuesday that is to be agreed formally by Thursday and issued on Friday. I hope that we can frame the draft report in a way that delivers consensus on skills, education, infrastructure, agriculture and opportunities for development in some of the biotech areas. I hope that members can sign up to that. However, the subgroup must also be clear about areas on which political parties have a view. Thus far, we have not heard parties' views on fiscal issues. The subgroup will hear those at Thursday's meeting.

3747. I thank Paul for identifying in his paper many of the issues. From the staff's perspective, a great deal of consensus is emerging.

3748. **The Chairman (Mr McClarty):** On members' behalf, I thank Paul for the tremendous amount of work that he has put into the paper, which I am sure we will find extremely useful.

3749. **Mr McNarry:** I add my thanks to Paul for his paper. It is interesting, in that it is a summary of the written evidence. I must say that the oral evidence, which we all sat through, was more interesting. We got a feel for people through their presentation, nuance and tone.

3750. What is absent from the written evidence, and I am sure that it will be addressed, was the type of evidence that we took from people such as William Wright and Eric Reid. They are employers at the coalface who were able to give some good examples of what it is like to be there, unlike some people who, quite honestly, have no experience of that whatsoever.

3751. If we could go back five or 10 years, would a group like this have been highlighting the same issues? Would it have said — as Alan Patterson and Paul Moore have said — that further work needs to be done and further analysis required? How long is a piece of string? That is where the direct rulers of Northern Ireland stand utterly condemned. They have not taken Northern Ireland forward. Instead, they have been content to write words

and more words on reams and reams of paper but do nothing.

3752. I can only speak for myself, but it might make it easier if we were to scope the subgroup's remit again. Our remit was to identify the impediments. We should draw one column and list the fiscal incentives. We should then draw another column and list what we consider an economic package to entail. We need to dissect all the evidence, and I would be grateful if somebody could do that.

3753. I did not find anybody who was citing that a solution to an impediment was something for which we needed to beg. There is an opinion in Stormont Castle that we need to beg, or that we would beg, because we want everything handed to us on a plate. An impediment coming from Stormont Castle is that politicians who have been elected to the Assembly are being blackmailed. Stormont Castle tells us that we might get this or that, provided that we form a Government.

3754. Hell, giving in to blackmail is no good for the economy, and I will not take the rap if it does not work. What is good for the economy must be good in principle and established as such. We need to single out the main impediment from all those that have been clearly identified. It will be a massive achievement if this subgroup can come close to making a decision on whether a reduction in the rate of corporation tax, some relaxation on capital gains tax or tax credits in R&D is most important.

3755. The subgroup heard from the men at the coalface that they wanted to get on with their business without restriction. Certainly, R&D was important to the witnesses from Moy Park Limited, but they were more or less doing that themselves.

3756. I do not know how other members feel, but I would be grateful if we could perhaps work from three columns, so that we can compile a report based on the three elements of our remit: to identify the impediments, consider fiscal incentives and identify what is required from an economic package. I suspect that we may succeed in our consideration of the first two, but that blackmail may come into play

when we consider the final column dealing with an economic package. Those parties who want to play into the blackmail role may declare their interests, but the Ulster Unionists will certainly play no part in that. Nevertheless, the economic package is a serious and important issue that we must address. However, it must not be presented as some type of begging bowl to any Government or to any Secretary of State.

3757. **Mr Neeson:** I thank Paul Moore for his paper. He has clearly identified some of the major issues, and I agree with him that this subgroup should not rush into making recommendations on fiscal incentives, as there was much disagreement on the best way forward.

3758. We should examine the small-business sector and the lack of take-up of R&D therein. Paul referred to tax credits. Tax credits are based on profit, and there seems to be an impediment to firms in the small-business sector availing of tax credits. As that sector is the basis of the economy in Northern Ireland, we must give it close consideration.

3759. The subgroup has been given a short time to carry out this exercise. As the Chairman knows, when we sat on the Enterprise, Trade and Investment Committee, we devoted almost six months to 'Strategy 2010' — and where is it now? David McNarry's comments on the reams and reams of strategies that have emerged over the years and how they were, or were not, implemented are quite correct. That is why we must be careful. However, there was much agreement on the development of skills, the education system, and so forth, and we will achieve a great deal of consensus on those issues.

3760. The other point that emerged clearly from many of the submissions was the current lack of joined-up government in Northern Ireland. In many ways, we, as politicians, are guilty, because 10 Departments do not provide an opportunity for joined-up government. We received submissions and evidence from DETI and DEL on the great deal of crossover in areas of responsibility between the two, and similarly between DOE and the Department for Regional Development (DRD). The subgroup must examine that problem.

3761. We are currently going through the review of public administration (RPA). In fact, I am leaving shortly for a meeting of the RPA political panel. Local government is changing very dramatically, and we must look critically at central Government too.

3762. There are many issues to consider, but on Thursday we will be able to articulate parties' perspectives on the challenges that lie ahead.

3763. **Mr Paisley Jnr:** I would like to thank Paul Moore for identifying the issues in his paper and for bringing a number of complex matters together. At times, I am sure that those matters are mind-numbing. The paper helps us to move from analysis to answers, and it is important for us to reach a point at which analysis stops and answers begin.

3764. Both Paul Moore and the Committee Clerk used the word "travel" in their comments, and it is important that the Committee moves the debate on. We do not have the option of standing still and doing nothing. I am attracted by the idea that has been mooted of providing fairly straightforward columns and black-and-white terms to show the stage that we have reached. There must be a fourth column on options.

3765. Since the collapse of Stormont in 2002, because of the spy ring and everything else, the buck does not stop with us any more. The buck stops at Stormont Castle, and we must provide options to the NIO to the effect that we are not content with its standing still and doing nothing. On corporation tax or tax credits, we must state that the Government must choose one or the other. That is their call to make; they are running the place. I would far rather that we were running the place, but that is not a fact of life at the minute. We must provide the Government with the options and get them to make the call. We should state our preferred options, but tell the Government to make the call.

3766. It is important that our report properly reflects the underdeveloped private sector. It is easy to knock the public sector. I do that every day — politicians do it every day — but it is not entirely the public sector's fault that it is so overdeveloped. We dwelt on that matter very

early on and, on reading the Hansard reports, it seems to be an ongoing theme. We must ensure that opportunities exist for entrepreneurs to take. There must be no disincentives for entrepreneurs. Rather, we must provide incentives, but that will only come about through a meaningful peace dividend, rather than a rebranding of the £16 billion. That money is not a peace dividend, and we must spell that out loudly and clearly to the Government.

3767. Cutting red tape and bureaucracy is the best way of assisting businessmen and giving them shortcuts through the process. It is unfortunate that we threw away some of our ace cards when we got rid of industrial derating, and I do not believe that there is any going back on that. We must now try to make up for that by cutting red tape where possible. In placing those matters in the options column, we will be telling the Government that if we were taking the decisions, those are the options that we would be considering. We are not in Government, but we are demanding that the NIO take those decisions, because standing still is not good enough. Unfortunately, the Government have a great excuse at the moment for standing still — they are blaming us. We should make it clear that they can no longer blame us. It is up to them.

*11.00 am*

3768. **Ms Ritchie:** I would like to thank Paul Moore for his analysis of the written evidence. Suffice it to say that some of the impediments are linked to the lack of political stability.

3769. The skills deficit is related to the focus of the education system on the academic sphere, leaving those who require vocational training in second place. That is perhaps linked to some of our perceptions and the perceptions of industry.

3770. There is a need to pump-prime the private sector and to address the debate about the private sector versus the public sector, in order to tackle the infrastructure deficit. For years, direct-rule Administrations have denied the need to upgrade our infrastructure. For the Government to now suggest that they will tax the people of Northern Ireland in order to upgrade the infrastructure is quite facile. That is a further example

of punitive measures, rather than addressing the situation in more imaginative terms.

3771. Although we have considered fuel duty on previous occasions over the last number of years, it nonetheless remains an issue. The Freight and Transport Association highlighted fuel duty as a potential impediment.

3772. We must undoubtedly consider the challenges to the economy. The subgroup's draft report must make conclusions and recommendations that will show that we have an interest in preparing a report for the incoming Executive, because that is our role. It is not solely for the British Government to do that — we have a role and an aspiration. I like to think that everybody around this table wants the restoration of the Executive, the Assembly and all political institutions on, or before, the 24 November.

3773. We must ensure that the economy grows and that we are competitive. Furthermore, the North/South issues raised by Dr Driscoll must be addressed and presented as opportunities so that we see ourselves in terms of an island economy — not in the political sense, but in the pragmatic sense. For many years, communities were hindered because they were cut off from their natural hinterlands, with economic opportunities lost as a result. We must ensure that that is not the case in the future.

3774. I take David McNarry's point about creating a grid. That grid will assist in identifying impediments, challenges, opportunities, fiscal incentives and the economic package, and it will help us to match those up. We must also factor in parties' perspectives to acknowledge where ideas coalesce in order to present an agreed report.

3775. We must go back to the Secretary of State to show that we have met his challenge to us and present a report that is cogent but that is also a panacea for a resumed Executive and Assembly. If we do not do that, neither the current nor future generations will deem us to have passed the test. The challenge has been laid at our door, and we have a responsibility to meet that challenge.



3776. Undoubtedly, the British Government have other responsibilities, but our most important challenge, as elected representatives, is to ensure that a resumed Executive and Assembly is capable of delivering on the report that we will publish. That is the most important thing. We must ensure the delivery of a thriving economy for future generations.

3777. **Dr McDonnell:** Chairman, I welcome you to the subgroup. I apologise for my late arrival, but the privilege was all the more exciting when I discovered that you were in the Chair.

3778. **Mr Simpson:** Quit crawling, Alasdair.

3779. **Dr McDonnell:** No — it is a privilege. It brings me back to the days when boys were men, girls were women, and the Chairman, Sean and myself gamely struggled with the issues before us.

3780. **The Chairman (Mr McClarty):** Having sat on Committees with you, Alasdair, I knew not to expect you at 10.00 am.

3781. **Ms Ritchie:** For fear that you might have to say it yourself, Chairman, when I said that Alasdair would be late, you said that he was rarely on time.

3782. **Dr McDonnell:** Lest there be any doubt about the reason for my delay, I was praying that the subgroup would be successful.

3783. **Mr McNarry:** Alasdair, you are a total waffler, do you know that?

3784. **Dr McDonnell:** I was deep in prayer that the Chairman's tenure would be a success.

3785. **Mr McElduff:** Has Mr McNarry concluded his point?

3786. **Dr McDonnell:** Like many subjects that we tackle, we can try to eat the entire elephant at once, but that will not be possible. We were given a very short period of time in which to complete a report and, as Alan said at a previous meeting, we are trying to do nine months' work in about six weeks.

3787. When we discuss serious issues, we sometimes begin with wishful thinking, which is not always the best starting point. We need to take an overview of the economy; we can do no

more at this stage. I do not want to use the word "superficial", but we can take only a quick scan of the lie of the land.

3788. Before we begin an in-depth examination of any of the evidence, a strategy must be devised. We tend to weigh in at the end rather than get the strategy right. I have never clearly understood DETI's economic strategy or whatever preceded it.

3789. **Mr McNarry:** It is a total secret; that is the problem.

3790. **Dr McDonnell:** The first thing that we need is a clear strategy. If we have that, whether it is right or wrong, we can relate to it and agree or disagree with it. Of the many strategies that exist, I have never been clear, for example, on where we stood in relation to the demise of the sunset industries, in which I include agriculture, to some extent. Where do we stand on the food industry or on the shrinkage and decline of agriculture?

3791. The Ulster Farmers' Union (UFU) and others told us that they were under pressure from milk prices and one thing or another. We may decide to follow the example of other European countries and draw a line in the sand and stabilise the agriculture industry. It may be that someone in that industry decides —

3792. **Mr Paisley Jnr:** Do you represent Belfast?

3793. **Dr McDonnell:** Yes, I can represent Belfast if Belfast city slickers can represent North Antrim — or try to represent North Antrim.

3794. The point is that, in considering labour-intensive measures, we might be well advised to plant trees.

3795. **Mr McNarry:** Perhaps at interfaces?

3796. **Dr McDonnell:** At interfaces, perhaps, or on marginal pieces of land that are treated as less-favoured areas. There are several issues involved, but we need to decide on our strategy. Are we going to wipe out the agriculture sector or let it die on its feet?

3797. Equally, we need to decide what to do about indigenous industries and how they are promoted. Local industries have long had a

sense of grievance that they are not given the same priority as foreign direct investment.

3798. The third issue that I wanted to raise is R&D, which covers a multitude of sins. In fact, it covers the whole world, depending on what angle or aspect of R&D one looks considers. For small companies that are trying to improve or become more efficient, R&D is great. We need to encourage much more of that.

3799. There is a vast gold mine in the form of biotechnology. There are tremendous resources in our Health Service, our hospitals and our universities. A way must be found to set free some of the intellectual property contained therein, because much of the research is treated academically, kept in a cupboard and taken out for presentation to medical colleagues once a year, only to be put back.

3800. Much of the wealth that has been generated on the east coast of the United States over the past 10 or 15 years has been in life and health sciences and in the creation of drugs, medical appliances, etc. We have not exploited those areas. We have the resources, and we are very proud of them, but we keep them in a drawer, take them out and flash them around once a year, then put them back.

3801. As well as R&D, we must commercialise our academic and intellectual property. Tremendous strides have been made in the University of Ulster where, with no medical base or background, but from a simple biology background, a number of initiatives have been driven forward. Those in this city who should have been utilising some of their medical knowledge have, in many ways, been superseded.

3802. We must consider what strategy we can produce, and decide whether we are going to invest in becoming a life-and-health-sciences economy, or whether health sciences should be a key driver in our economy. Having done that, we must then restructure, or tidy up, that strategy's mechanisms before getting down to such details as incentives, people and how the work will turn out.

3803. I must emphasise, in the political context, that I want to see expansion, development and

progress on the cross-border issues, not because I want to poke somebody in the eye politically, but because we are a small community and we must have friends. Cross-border progress is only the first phase, as far as I am concerned, because we also must reach out to Scotland, Wales and the rest of the British Isles. We must attempt to market what we are doing here and become a player in a bigger European jigsaw. I wish that we could find a better mechanism for taking politics out of the economy.

3804. Ian Paisley Jnr mentioned the attitude of direct-rule Ministers. Their attitude is brutal, and it is intended to be so. In a crude and clumsy way, they are attempting to knock heads together — yours and mine — and effectively blame you and me for the mess that they are creating. We can squeal about that if we like.

3805. **Mr Paisley Jnr:** We know that we are not the problem.

3806. **Dr McDonnell:** That may be so, but we are going to carry the can for the problem, and the people that we represent will be penniless because of that. It appears from the direct-rule Ministers, and the broader political flow that surrounds the Secretary of State, that they intend to squeeze the daylight out of whatever money comes here. They have decided that we will pay a price and that we will be squeezed. Some of us see ourselves as British and the rest of us see ourselves as Irish, but that will be irrelevant. They will penalise us brutally to the point where we are penniless. We must get our act together around this table, in the Assembly and around other tables, and — somehow or other — create space in which to discuss our differences, and then move on to discuss our sense of common purpose in another context. It is essential that we begin to do that in order to create the backdrop for discussions on the economy.

*11.15 am*

3807. Members have mentioned political instability. No one said that I have to agree with the DUP, or that the DUP has to agree with me. However, there must be a balance of understanding — a balance of the equation — so that, if someone wanted to invest £1 million or £2

million here, he would know that he could trust that the relationship and understanding between the parties would not be erratic or unstable. That is where the economic equation relates to politics.

3808. There may be an opportunity to discuss that matter further at our meeting on 17 August, but we must take responsibility where we can and accept, as my colleagues across the table said, that some matters are outside our control. We must show willingness, attitude and insight so that those who are in control know that they will only get away with so much, that they cannot duck out or screw us up, and then walk away and blame the victims.

3809. **Mr Paisley Jnr:** Alasdair, that is why we suggested providing options to the Government: they will not have any wriggle room. If they want us to be in charge, those are the options that we will have. If they are in charge, they must choose one option, and, if they do not, they cannot blame us. It is important that we finish the grid in that way.

3810. **Dr McDonnell:** I accept that, but all parties' supporters are watching, waiting and seeking a lead from us. I will not pick on individual parties; no one has any difficulty in recognising our differences. The major political differences between us have been spelt out, but there is a desire out there for us to produce something, particularly in the economic area. The challenge for us is how we do that, while still retaining our rights to discuss and disagree. We may produce only an overview, which may be more superficial than we would like. However, there is a desperate need for us to rise above our differences and state what the people want. I agree with Ian Paisley Jnr's point.

3811. **Mr McElduff:** Everyone is saying that we should send a message to those in Stormont Castle that they represent an impediment. We all know that; that is not sufficient. If we simply send a message, it will look as though we are too resigned to dependence. We must be able to make decisions ourselves. The report must be evidence-based, so members should read the section in Paul Moore's paper about political instability; they should read the submissions from the Quarry Products Association, from the

Freight Transport Association and from Northbrook Technologies. The Quarry Products Association states that strong political leadership is the first necessary ingredient in helping to turn the economy around.

3812. Dr McDonnell put the case well. The subgroup should send a strong, courageous message. We must take responsibility to confirm to direct-rule Ministers that we can do a better job and that we are willing to do a better job than they do. In respect of North/South issues, which Dr McDonnell and Ms Ritchie touched on, if we only approach those from the point of view of mutual benefit, surely there is something to be said for a more competitive tax regime, directed towards a harmonised approach.

3813. It would also be instructive to take on board Dr Gilleece's paper on the contribution of education policy to economic growth in the South. That has been successful, so we need to examine that.

3814. **The Committee Clerk:** I had a conversation with representatives from DETI on Friday, and they raised the issue of rating. Apparently, a £30 million pot was set aside for an energy subsidy, but the European Equality Authority got its hands on that and prevented it from being used. However, at least £20 million of that pot remains, so a suggestion was made that, perhaps on a recommendation from the subgroup, the Secretary of State might be minded to allow that money to be spent on rating relief, particularly for firms with high-energy costs. I bring that to the subgroup's attention as a possible option.

3815. **Mr McNarry:** Is that a recommendation from DETI?

3816. **The Committee Clerk:** No, I would not put it in that way.

3817. **Mr McNarry:** Then why are we the messengers? Can DETI not stand up for itself, rather than bring things in by the back door?

3818. **The Committee Clerk:** All that I am doing is briefing the subgroup. I cannot comment on any motivation.

3819. **Mr McNarry:** There is nothing in writing from DETI. At times, it was the body most reluctant to put anything in writing.

3820. **The Committee Clerk:** The option was mentioned in a conversation that I had with DETI officials. I wanted to put that on record.

3821. **Mr McNarry:** It is a good point.

3822. **The Committee Clerk:** The pot may be small — the Secretary of State may consider £16 billion to be the total pot. However, other money is available. Some of the oral evidence suggested that big money is not required; rather, that an oiling of the wheels would suffice. We could highlight the energy rating moneys through a recommendation in the subgroup's report.

3823. **Mr McNarry:** Could the Committee staff prepare a four-column presentation for Thursday's meeting? I accept Ian Paisley Jnr's valid point about options. I also support his reasons for that. It would be illustrative to see what is in those four columns, and what we can develop from them.

3824. By the end of this process — and I am unsure how we will get there — we must ensure that we cannot be accused of preparing to go into Government without having seen the books, without knowing what we are to inherit, and without being told anything. Departments will not tell us anything other than what they want to tell us.

3825. We have not been told how to remove the impediments or any fiscal incentives that we could suggest or introduce. I agree that the strength of the subgroup should be measured on its outcomes. I accept and respect what Alasdair McDonnell says. However, the subgroup must demonstrate that, at the end of all our preparations, we have not let matters go over our heads.

3826. **Dr McDonnell:** But —

3827. **Mr McNarry:** No buts. We have identified the issues; we want to bring them to the attention of our colleagues in the Assembly, and we want the public to be aware of the issues. For our credibility to be understood and accepted, we must show that we are seriously preparing for Government.

3828. One would not think of taking over a company unless one saw the books and was aware of its performance and sustainability. If a community group asked the Government for a grant of £3,000, the Government would ask for a business plan and enquire about sustainability plans. Without straying into another realm, many community groups fall asunder because of problems with sustainability.

3829. Last week, we discussed an interesting point about economic inactivity. I am not sure where that features in the agenda. Because of Northern Ireland's position, economic activity must feature in the subgroup's report. The point was made that Northern Ireland has the second-lowest unemployment rate of the United Kingdom regions, yet almost 300,000 people are categorised as economically inactive. That is 6% higher than the average UK rate. The Government must tackle that matter.

3830. I do not wish to go into the sensitivities of the issue, because Alasdair was clear and precise on them at our last meeting, and we all supported him. Not everyone who is economically inactive is a chancer, but a hell of a lot of them are. We need to tackle the damage that that does to the economy. I wonder if those in the brains trust, who sit at the head of the table, could incorporate that in a piece of work for this subgroup?

3831. **The Chairman (Mr McClarty):** Does everyone agree that that exercise should be carried out?

3832. **Ms Ritchie:** I agree. Paul's paper also referred to the levels of economic inactivity, and some of the contributors who presented evidence to this subgroup confirmed that that is a problem. As Alasdair said, there may be good, logical, medical reasons for that level of inactivity, but the problem must be addressed.

3833. Are carers at home included in the overall equation? They are active, but only partially economically active, because they receive a paltry sum of money for their work. There are many reasons, many of which are good, for such a high level of economic inactivity and why some people go back to receiving benefits, perhaps as a means of circumventing the system.



3834. **Mr P Moore:** Page 7 of my paper highlights the fact that 99,000 people cite sickness and disability as the reason for their economic inactivity.

3835. **Mr McNarry:** The paper that DEL submitted quotes a figure of 295,000.

3836. **Mr P Moore:** That is the total number of economically inactive people in Northern Ireland: 99,000 come under the category of citing sickness and disability, and that represents a significantly higher percentage than in other areas.

3837. **Mr McNarry:** Has the proposal to have four columns been accepted?

3838. **The Chairman (Mr McClarty):** Are members content with that?

*Members indicated assent.*

3839. **The Chairman (Mr McClarty):** Members have accepted that proposal.

3840. OK, we now move out of the open session and on to Item 6 on the agenda, which is any other business. No one has raised any further issues with me. Does any member wish to raise anything now?

3841. **Mr McElduff:** I want to be clear on the character of Thursday's meeting and what we will be doing.

3842. **The Chairman (Mr McClarty):** The next meeting will be at 10.00 am on Thursday.

3843. **Mr McNarry:** Will you be here, Mr McElduff?

3844. **Mr McElduff:** Yes, I will see you here, David.

3845. **Mr McNarry:** Do not forget that the meeting will be held in Northern Ireland, in the United Kingdom.

3846. **Mr McElduff:** I will not comment on that at this juncture.

3847. **The Chairman (Mr McClarty):** The next meeting will be at 10.00 am on Thursday 17 August 2006 in this room. The purpose of the meeting will be to hear the views of members on the three terms-of-reference headings. The objectives will be to reach consensus — or a majority view, should consensus not be possible

— and to ensure that the subgroup's recommendations reflect all of the evidence.

3848. Therefore, I am setting members a bit of homework to do between now and then. I invite members to present a short summary paper of their parties' views against the terms of reference at the next meeting on Thursday.

3849. **Mr McNarry:** How long is the meeting intended to last?

3850. **The Committee Clerk:** For as long as members want.

3851. **Mr McNarry:** I wonder whether we could discuss the four columns before the presentations. I would be more comfortable with that. We would probably need time to consider how the four columns end up, so that we could properly focus on a presentation.

3852. **Mr Paisley Jnr:** That may better focus minds, because then we will have dealt with that matter.

3853. **The Chairman (Mr McClarty):** The suggestion is that an item on the agenda be set for discussion of the four columns.

3854. **Mr McNarry:** It should be the first item on the agenda.

3855. **The Chairman (Mr McClarty):** OK, the first or second item. Are members content with that?

*Members indicated assent.*

*Adjourned at 11.29 am.*



## Thursday 17 August 2006

*The subgroup met at 10.02 am.*

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

**3856. The Chairperson (Mrs Long):**

Apologies have been received from Esmond Birnie, for whom Leslie Cree is substituting — Leslie, you are welcome; David Ford, for whom Kieran McCarthy is substituting, and Michele Gildernew, for whom Barry McElduff is substituting. Apologies were also received from Margaret Ritchie, for whom John Dallat is substituting, and Ian Paisley Jnr, for whom David Simpson is substituting. George Dawson is here, so I assume that an apology was received from Peter Weir.

3857. The second item on the agenda is the “Draft minutes of the meeting of 15 August 2006”. Is everyone content that those are an accurate record of the proceedings?

*Members indicated assent.*

**3858. The Chairperson (Mrs Long):** The minutes will be placed on the Assembly website.

3859. We now move to matters arising. First, as requested, approval was sought from the Preparation for Government (PFG) Committee on 16 August 2006 to allow an evidence session to be arranged with Maria Eagle MP on her return from leave in September. A copy of the Principal Clerk’s memo to the PFG Committee is in the members’ packs. The PFG Committee approved that on 16 August 2006 and it is anticipated that the session might be arranged for 5 September 2006. We also hope to take evidence from the Youth Forum on the same day, if it is available.

3860. The second matter arising is the communication with David Hanson MP. As agreed at the last meeting, a letter was sent to David Hanson MP requesting information on the membership, terms of reference and arrangements for the working group he is to

convene on industrial derating. A copy of the letter is included in members’ packs.

3861. Finally, in relation to evidence provided by the Department of Education at the previous meeting, Roy Beggs requested further information from the Department of Education regarding statistics on GCSE and A-level comparisons with England and Wales. A copy of the Assistant Clerk’s e-mail to the Department is in members’ packs.

3862. Additional written evidence has been received since the previous meeting and is included in the packs. It includes written submissions from the Association of Northern Ireland Colleges (ANIC) and the Northern Ireland Manufacturing Focus Group (NIMFG).

3863. Additional information, as requested from witnesses at recent evidence sessions, has also been received and is in the packs. It includes information from the Department of Enterprise, Trade and Investment (DETI) in relation to economic inactivity. The Economic Research Institute for Northern Ireland has provided information on sector skill councils; the Department for Social Development (DSD) has provided data on all of the main disability benefits, broken down by gender, age, geographical area and nature of illness. As you see, it is quite a weighty tome. I suspect members will want to take it away and digest it at length.

3864. The pack also contains a table detailing the findings of the subgroup. It sets out the issues arising from the oral and written evidence received to date against the subgroup’s three terms of reference. The table has been prepared by the Principal Clerk and is for consideration at today’s meeting. It will prove useful in guiding discussions after the parties’ submissions this morning, so it might be useful if members would consider it and provide comments. Perhaps it would be better to reserve

comments for a few moments until we get into the meat of the discussion.

3865. We now move to the presentations outlining party positions. First, we need to agree a format. I suggest that the most efficient way is for each party to make a presentation of 10 to 15 minutes and then open the meeting to discussion. Obviously, we should try to concentrate on where consensus can be developed, with a view to producing a report for discussion at next week's meeting.

3866. Are members content to proceed along those lines?

*Members indicated assent.*

3867. **The Chairperson (Mrs Long):** The SDLP and Sinn Féin have made written submissions and both have been tabled today.

3868. In order to prepare the report for next week's discussion it would be helpful if other parties wishing to table written submissions after, or indeed, during today's meeting would do so as soon as possible.

3869. Members of the PFG Committee generally make their presentations in alphabetical order. Are members content to proceed in that fashion?

3870. *Members indicated assent.*

3871. **The Chairperson (Mrs Long):** Sean Neeson will make a submission on behalf of the Alliance Party.

3872. **Mr Neeson:** My presentation will focus on the three headlines that were suggested last week: problems, solutions, and opportunities. The matters that I will deal with this morning are by no means exhaustive. Members have just received a short paper dealing with some of the issues that my party feels are important to the Northern Ireland economy, using the headlines agreed by the subgroup.

3873. As far as the problems are concerned I have always taken a great interest in the energy industry in Northern Ireland. There is no doubt that the high cost of energy in Northern Ireland is extremely prohibitive for industry, particularly for some large-scale industries. However, we also must realise that we are now in the age of

the global economy and we face huge competition from low-cost economies such as India, China and Eastern Europe.

3874. As a country, we share a border with the Republic of Ireland, which has a very low corporation tax rate. In many ways, that gives the Republic an added advantage when trying to attract inward investment. I will deal with fiscal incentives later; they must be examined in greater detail.

3875. Many of the people who made presentations to the subgroup referred to how the infrastructure in Northern Ireland lags behind that in other parts of the UK and the Republic of Ireland. Necessary major investment in infrastructure was recently announced, but much of it will not be spent until 10 years down the line. Furthermore, bearing in mind that Northern Ireland is a peripheral part of Europe, high transport costs are also a major impediment to investment.

3876. Sadly, the political stability that many investors want to see has not yet been achieved. I hope that, through the work of the subgroup and the PFG Committee, devolution will be re-established sooner rather than later.

3877. The Planning Service has come in for a great deal of criticism. Personally, I have found that delays in making decisions on planning matters have been a major problem. A multinational company that invested in my area was prepared to walk away because of the delays in receiving planning permission.

3878. We all agree that there is high level of dependence on the public sector. Some regard that as a problem and others, some of whom were witnesses before the subgroup, regard it as an advantage. However, the overall strength of any economy must be based on the manufacturing and service sectors. That, and the fact that the Treasury is now having such a major impact on the Northern Ireland economy and is seeking cutbacks in the public sector, must be borne in mind when developing a future strategy.

3879. When witnesses from the Department of Finance and Personnel (DFP) gave their presentation, two of the major problems that



they highlighted were the high rate of economic inactivity in Northern Ireland and long-term unemployment. The Government, and hopefully the Assembly, must get to grips with that serious problem.

3880. Possible solutions include fiscal incentives and a lower rate of corporation tax, which has raised its head time and time again. When Sir George Quigley and his group from the Industrial Task Force gave their presentation, a lower rate of corporation tax was almost the only issue on which they focussed. As senior civil servants are currently carrying out a study in Northern Ireland on the benefits, or otherwise, of a lower rate of corporation tax, I suggest caution for the time being. Let us get the facts and consider what impact a low corporation tax has had in the Republic of Ireland.

3881. Mivan's letter to the subgroup clearly stated that a low rate of corporation tax would not necessarily be an incentive towards new inward investment. I suggest that we consider all the fiscal incentives. All parties represented at this table got together with the Northern Ireland Manufacturing Focus Group (NIMFG) and discussed industrial derating, which is a matter requiring further consideration.

*10.15 am*

3882. Another item of interest to the subgroup was tax credits, particularly in relation to research and development (R&D). It was clear from the evidence presented to us that small companies were not taking advantage of that because the tax credit system was really based on profit. That is an issue for the subgroup; we should focus on growing the small-to-medium enterprise (SME) part of our economy. It is by far the largest base in the economy; the Federation of Small Businesses told us that small businesses were being disadvantaged by many of the incentives, simply because they were small businesses.

3883. The need to develop a skills strategy is one of the most important issues that we must address. William Wright, in his presentation, stressed the importance of apprenticeships, and I agree that there is a need to develop apprenticeship schemes throughout Northern

Ireland, whether they are for small or large businesses.

3884. As I have said before, I was struck by Dr Michael Maguire's comments on the need to develop responsive education. I remember that when Nortel was going well, the further education (FE) colleges in the greater Belfast area developed courses to try to develop the skills that would be required for that company. Sadly, the downturn in the IT business hit that on the head. That is the sort of thing that we need to look at; our education system is crucial to the development of the Northern Ireland economy. That is why it is so important to develop a skills strategy.

3885. I am not sure whether I will get consensus on developing joined-up government. There are too many Government Departments at present, and we are not getting joined-up government. Although Departments such as DETI and the Department of Employment and Learning (DEL) are trying to act in partnership, the Review of Public Administration has been carried out in isolation from central Government. If we are to develop a strong, efficient economy we have to have a strong, efficient form of government as well.

3886. The social partnership, too, has much to contribute, and the presentation from the Northern Ireland Council for Voluntary Action (NICVA) clearly showed the importance of that. Those partnerships are the way forward for the development of the economy.

3887. A further matter to address is the cost of segregation in Northern Ireland. My party has estimated that segregation costs the taxpayer somewhere in the region of £1 billion a year. If we are to develop the shared future which all of us around the table believe is the way forward — and there is no doubt about that —

3888. **Mr McNarry:** "All of us" is an assumption.

3889. **Mr Neeson:** OK. I believe, as do many people in Northern Ireland, that the way forward is on the basis of a shared future. We must deal with segregation.

3890. The return to relative peace has meant that tourism has begun to grow into a major

industry in Northern Ireland, although some of the incidents that happened recently show that there are still problems.

3891. There are many opportunities out there. We have seen some improvement in the air routes into and out of Northern Ireland, but there is further scope for development.

3892. The Strategic Investment Board (SIB) has brought together many interesting projects, and there are opportunities to develop those. It is important that the operation of SIB and, as I have already mentioned, the work of Invest Northern Ireland are investigated.

3893. William Wright raised the interesting matter of licensing, which he believes will be a major contributor to the growth of his company. That option should be examined in greater detail.

3894. I said earlier that Northern Ireland shares a border with the Republic of Ireland. While some people have political difficulties with the Republic, I see a major opportunity in joint marketing with its companies. That has happened in the past.

3895. Finally, opportunities arise from exploitation of the green economy. Northern Ireland is fortunate in that it has a useful environment. On the issue of agribusiness, the Ulster Farmers' Union presented their report to the subgroup. Let us not forget the major contribution that agriculture makes to Northern Ireland's economy. We must examine how we can develop added value from the agriculture industry.

3896. The list I have provided is not exhaustive. However, I hope that my paper provides the basis for discussion.

3897. **The Chairperson (Mrs Long):** Thank you, Sean. The subgroup has done well to stick to time so far. We will proceed to the DUP's presentation.

3898. **Mr Simpson:** I apologise for not having produced my paper earlier so that members would have copies. However, I will ensure that that is done as quickly as possible after the meeting, so that it can be included.

3899. I expect that many of today's presentations will repeat one another. However, I am sure that

no one will become bored. It is, perhaps, a positive thing: some sort of consensus will emerge from that. I will discuss my party's position with regard to the economy.

3900. First, I want to consider entrepreneurial opportunity. The Government cannot create entrepreneurs. It can, however, help to cultivate a can-do culture. Absolutely everything that the Government do with regard to economic government must be rooted in the philosophy that it is public policy to support and encourage business to grow and develop; that the Government and its agencies will always approach business, its problems and its aspirations with the intention of assisting, rather than hindering, its development.

3901. Encouragement of entrepreneurship requires attention at virtually every level of Government. It pervades wide-ranging areas of Government including education, regional development and the tax system. Northern Ireland needs a serious dose of introspection in its Government Departments vis-à-vis their relationship with the business community and the promotion of a genuine partnership between the Government and business, with the Government facilitating entrepreneurial opportunity.

3902. As we share a land border with an economic competitor whose headline rate of corporation tax is 12·5%, the DUP supports the lowering of Northern Ireland's headline rate of corporation tax to below 12·5%. If that is a step too far for the Treasury, the DUP is prepared to look seriously at a cocktail of fiscal incentives that would have the same net effect.

3903. There are alternative ways to achieve the same results. One is the proposal that approved and allowable expenditure for R&D and training and marketing — which is included in the corporation tax computation — be multiplied by a factor of three and allowed as a deduction in arriving at the taxable profits for businesses based in the Province. In addition to enhancing Northern Ireland's attractiveness to investors, that proposal would address R&D issues, thus increasing exports and developing new skills.

3904. The DUP also supports the re-introduction of 100% capital allowances for plant and machinery and computer software and equipment for Northern Ireland companies. Such a move would incentivise companies to expand, invest and innovate. Recently, it was interesting to read in a London financial paper that the joint chairman of the Conservative Party's Policy Group on Economic Competitiveness, John Redwood, supports considering a lower rate of corporation tax for all regions of the United Kingdom. He believed that it would be advantageous in relation to the creation of employment and investment. He made the point that young economists should examine that, and that he would strongly support a lower rate of corporation tax in Northern Ireland, as it is part of the United Kingdom.

3905. The DUP proposes a meaningful, comprehensive review of all business-related regulations, with the aim of radically reducing the time, money and energy that local businesses spend on red tape and bureaucracy. Particular emphasis should be placed on eliminating both outdated regulations that are no longer required but are still in operation, and requests for information already easily available in the Government system.

3906. In the matter of education, skills and training, the education system is not attuned to the needs of the business community. All primary, secondary and third-level schools, colleges and universities, must teach from curricula that value business and must produce students with the required skills to boost our economy. Real synergy between Government departments such as DETI, DEL and the Department of Education (DE) is required to fill the skills gaps.

3907. Our education establishments must particularly appreciate and address the skill needs of niche areas in our economy. Classes and research must be tailored to generating skills and proficiencies that are of real use in commercial ventures. Modern apprenticeships must produce real jobs.

3908. Tourism has exceptional potential for growth in the Province. Northern Ireland has a

unique tourist product to sell to the world. Its full potential is not met by the present fascination with marketing Northern Ireland as an offshoot of the Republic. Some 30 million tourists enter the United Kingdom each year — far more than enter the Irish Republic. Northern Ireland should exploit the benefits that can be derived from being an integral part of the United Kingdom and a neighbour of the Republic of Ireland.

*10.30 am*

3909. Investment in the future development of Ulster-Scots history and culture as a tourist attraction is paramount. The potential of Ulster Scots has never been properly realised, despite the tremendous possibilities for attracting new tourists to our shores.

3910. Northern Ireland's distinct tourist attractions, such as Titanic Quarter and the Giant's Causeway should be at the forefront of a Northern Ireland-focused tourism campaign.

3911. Additionally, ongoing support for the air-route development scheme is essential.

3912. Companies in Northern Ireland remain unwilling to engage seriously in research and development (R&D). Just 10 companies account for 60% of our R&D output. In addition to incentivising R&D through the tax system, suggestions for improving this bleak picture include bringing together several similar or related companies in a cluster in which they can pool their resources or appoint R&D managers in an area to look after, support and encourage companies engaged in R&D.

3913. The very term "R&D" often conjures up concerns for small- to medium-sized companies who perceive it to be about inventing brand new products. R&D is also about product development. Any strategy aimed at encouraging R&D should also focus on product development and identifying product life cycles.

3914. Northern Ireland's planning system, when it relates to business, needs a serious overhaul. A user-friendly system that fast-tracks economy-related applications and delivers coherent and consistent decisions with the minimum of delay is essential, so that our existing companies are not deterred from expanding, and new ones will

not bypass Northern Ireland for a destination where it does not take forever to obtain planning permission.

3915. It is not the Government's job to create jobs. If anything, the Government's principal responsibility at present is to assist in ending our overdependence on the public sector for jobs. The DUP suggests that the Government devise a strategy to lower significantly the number of economically inactive people in the Province — a figure that is presently estimated to be well in excess of 100,000. Government should employ the same tactics they used to tackle unemployment in the Province. We appreciate that moving from long-term inactivity to employment will require support, and that is where the Government can assist.

3916. The Business Alliance, the Confederation of British Industry (CBI), the Institute of Directors and the Federation of Small Businesses have said we need to create 14,000 jobs a year over the next 10 years. If that figure is accurate, then embracing some of my party's proposals will go a long way to reaching that target.

3917. **The Chairperson (Mrs Long):** Thank you, David. Mr McLaughlin will make Sinn Féin's presentation.

3918. **Mr McLaughlin:** I reiterate that, in processing the various documents and witness statements, it is clear that there is a significant basis for agreement. The truncated timeframe of our deliberations has meant that we have not necessarily accessed all of the information that we need. Nonetheless, it has been a valuable exercise and we can draw some definitive conclusions.

3919. Clearly, differences in emphasis and in analysis will remain. Perhaps some of the differences are too significant to be resolved in the short term. However, I believe that the subgroup can reach consensus on its report to the Programme for Government Committee; indeed, it will provide parties with valuable guidance in dealing with other outstanding issues.

3920. It is a welcome change to the focus of politics in the Assembly that securing the long-

term economy has taken centre stage. I believe that that would be a publicly welcomed development.

3921. Sinn Féin makes a clear statement that reflects our politics. It is not, however, a party political statement. Co-operation, collaboration and an all-island approach simply make common sense, and that has been demonstrated over and over again. I recognise that those aspirations are more appealing to Sinn Féin than they might be to some of my colleagues. However, it has been clear in discussions that there is no controversy around the assertions and examples of the benefits of that type of co-operation, which, I believe, provides a compass for the future. Sinn Féin's paper, which I do not intend to read out line by line, maintains that North/South, as well as east-west, co-operation makes perfect sense and is logical. Its benefits are there for all to see.

3922. Sinn Féin argues that the benefits of that type of synergy will allow us to drive down the cost to business. I have given an example in our paper of how having two separate currencies is an impediment to trade, both within and without the island. It is costly to consumers and to business and serves only to advantage an already profitable and prosperous banking sector. The four banks that control finance and have the authority to issue notes in the North are also the four dominant forces in banking in the South. Sinn Féin argues that to have 10, 12 or more banks would be better than to have four banks that enjoy a monopoly. Our paper provides an example where development of proposals on the single energy market has not automatically resulted in reduction of costs because of profit-making by producers. However, through good governance, those issues can be resolved to the benefit of the consumer.

3923. The road, rail and air issues that we must deal with have been well documented. My party also believes that there are significant gaps in telecommunications provision, despite the claims of 100% coverage. Many areas in the North do not have adequate cover. That is both a disincentive and a disadvantage.



3924. We must deal with gaps in education and prepare the workforce for the type of new economic profile that — if we can achieve both a stable and sustained system of Government — must be developed, particularly with regard to the restructure of the economy in the North.

3925. We must take responsibility for the environment when we consider how to develop an energy supply on the island. Sinn Féin believes that huge savings could be made if that were properly approached.

3926. Our paper refers to the huge imbalances — in the South as well as in the North — despite the huge wealth that is available to the Government. In the west and north-west there has been neglect, underdevelopment and, indeed, discrimination. Sinn Féin argues that an Executive in the North should, from the outset, endeavour not just to set targets to tackle poverty or underdevelopment; it must take a policy-driven approach to eradicating such disparities. That will not be done overnight — the problems did not emerge overnight, but over a long period — so we must be sensible and realistic about the timescale. The determination to eradicate those inequities should be a unifying factor in any local administration.

3927. It may turn out that the parties will not agree on a tax and fiscal policy. Lobbying from a vociferous and powerful section of the business community has created the economic myth that a simple act of making tax cuts will kick start the economy. It will not; indeed, expert witnesses have produced authoritative evidence at our hearings that has challenged this emerging orthodoxy.

3928. Empirical evidence from the Twenty-six Counties, and the Irish Government's 'Ahead of the Curve' report, demonstrates that a significant number of domestic firms simply pocketed tax-cut advantages without any corresponding increases in exports, output or R&D activity. All the evidence indicates that the same trend would emerge here. We must take a much more creative and flexible approach. In Sinn Féin's view, a range of tax and fiscal measures is needed to achieve the necessary competitiveness with the Twenty-six Counties' economy and to

present, on an all-island basis, a competitive edge over emerging low-wage economies — particularly those of eastern Europe.

3929. We must challenge the one-size-fits-all tax policy that is the current orthodoxy of the London Government. We must set out incentive-driven policies that demonstrate strategic development and provide contemporary incentives that will encourage our entrepreneurs to explore new markets and promote training and development and R&D activity. We must set our faces against tax giveaways as a means of doing that, because there are long-standing structural flaws in our economy for which there are no quick fixes. However lucrative and attractive the argument for various forms of rebates might seem, we cannot expect to resolve the issues on that basis. Rebates are not necessarily the strategy answers needed to build a competitive and vibrant economy.

3930. Sinn Féin argues that an all-island tax approach to tax and fiscal measures would reduce existing anomalies. It would also deal with the vexed issue of, for example, the differentials in fuel charges, and fuel smuggling. Those issues can be dealt with by harmonising fiscal regimes and by creating common trading conditions on the island. It would mean that decisions on the location of foreign direct investment would be different, and it would remove the legacies that cause so much angst and create such negative publicity for those attempting to develop a new approach.

3931. The Irish Government have come up with a significant R&D initiative. Sinn Féin is critical about much of their economic strategy and of the deployment of the enormous resources that are available to the Dublin regime. However, my party believes that the Irish Government have developed an imaginative Government-led approach to R&D, which sends a clear message to potential investors about the island of Ireland as an investment location with opportunities.

3932. The Assembly could follow the example of that approach, and, indeed, we could join with the Irish Government in that initiative.

10.45 am

3933. Mr Neeson alluded to the failure of Invest Northern Ireland, and I state bluntly that we must deal with that failure. Invest NI's own report shows that it has failed to reinvigorate the economy. It has failed to attract the type of investment needed, and it has failed in its duty of care to the entire community in the North.

3934. By concentrating in and around Belfast — I talk about south and east Belfast in particular, as its figures demonstrate — Invest NI has failed vast swathes of our community, which is grappling with the opportunities and challenges that having a more peaceful society brings. Our community is trying to gain the necessary confidence to have a more prosperous future. As a lead agency, Invest NI has consistently dashed people's hopes and expectations that peace would bring the opportunity for economic development and recovery.

3935. We have to be careful about attempting to mimic the Twenty-six Counties' approach. We are witnessing quite significant impacts on its open economy, due to international instability — rising oil prices, in particular — and, of course, consequent impacts on the American economy.

3936. We must have a more strategic relationship with the European market, and we need to pay much more care and attention to the downside of having an absolutely open economy. Emerging dangers and threats are overheating the economy in the South, and there is clear evidence of a complete dependence on the construction trade and property development market to carry the economy through this period.

3937. Finally, Sinn Féin has made a number of presentations to the NIO on the peace dividend. We have met with various Ministers over the past four or five years. We have consistently argued that there could be very significant savings in the security-budget expenditure, and in the operation of the NIO itself, if suspension is lifted and the Executive are allowed to resume their mandated responsibilities.

3938. Those savings should be re-applied in the Six Counties. Unless an essential injection of capital is at their disposal, the incoming Executive cannot be expected to implement a Programme for Government to deal with all the infrastructure deficits, the challenges of regenerating the economy, and the massive retraining costs that would be involved.

3939. We should reflect on the evidence that has, and will be, presented. Sinn Féin has presented a framework, which, we hope, in conjunction with our colleagues' suggestions and proposals, will form the basis of a meaningful report to the Preparation for Government Committee.

3940. **The Chairperson (Mrs Long):** Who will be presenting for the SDLP?

3941. **Dr McDonnell:** I will try.

3942. **The Chairperson (Mrs Long):** I realise that you arrived after we had completed the preliminaries. We are allowing about 10 minutes for each initial presentation, and we shall then open up the meeting for discussion.

3943. **Dr McDonnell:** I will not take the 10 minutes allotted. I was delayed because the Committee Clerk and I were in dialogue by phone. I discovered that the papers I had sent by email had bounced back, so I had to reconnect.

3944. The SDLP has submitted two papers. Owing to the rush involved, we produced a general document headed 'SDLP Economic Challenges Paper' on 16 August 2006. It deals with several issues that have much to do with reforming Government and modernising how things are done. It has a wider scope than is relevant to the subgroup, but we felt it important to pull the paper together, crystallise some of our thinking, and put it at the disposal of the subgroup to help set the framework.

3945. Margaret Ritchie and I have attended most of the meetings. We pulled together a specific paper responding to much of what has gone on here, and I will speak to that paper now.

3946. There should be a consortium, for want of a better description, to ensure that no section of our society is isolated. Again, without drawing

any political significance, much of the success in the South has come from national agreements, for some five years at a time, in which the public sector, the private sector, the unions, the voluntary sector and everyone else involved has a stake. They map out the economic way forward for a period, and broadly settle most of the issues for that period.

3947. In that context, we should be doing something similar here, but taken further. That type of exercise should be done centrally by Government to pull together all the interests, the needs and the ideas. The strategy would then be rolled out, taking us five, six, or seven years into the future.

3948. Fundamentally, a strong and growing economy is essential to produce the wealth, and the tax that flows from that, to fund the social programmes that we need to underpin a just and fair society.

3949. I mentioned the need for a coherent and transparent strategy. We feel — perhaps in less specific terms — that our current economic strategy can appear muddled and impossible to comprehend. That brings us back to Invest Northern Ireland; nobody knows where they are in our system, and that is why a consortium, or team approach, including all stakeholders, would create an open and unambiguous strategy.

3950. On 15 August I said that we need a clear strategy for managing old industries that are in decline, but in which we could retain niche markets. Those include agriculture, fishing, food production, some of the heavier industries and engineering. A few may be going offshore, but some of them could still be retained through niche markets, and, rather than shrugging our shoulders, those industries should be managed to retain whatever they have, even if that means managing them downwards. We believe very strongly that there should be a clear attitude to indigenous business and clear contracts between Government and indigenous business.

3951. We have some scepticism about the fact that grants are awarded to some and not to others. The grants system can sometimes appear willy-nilly, and it is a lottery as to who gets and who does not.

3952. The SDLP favours an open and transparent system. We are impressed by many aspects of the loan system available to small businesses in the US. When the Assembly was functioning, Sean Neeson, Reg Empey and I, among others, looked at that system. Instead of grants being selectively handed out to a few businesses, a guaranteed loan system is available — similar to our student loan system — whereby banks offer cheap, low-interest loans that borrowers can repay whenever they feel that they are able, with repayment periods sometimes stretching over 10 years. The system is open to everyone, whether they are setting up a grocery shop or a high-tech business. The operation of a similar system here would enable immigrants from eastern Europe to set up niche businesses here. The increase in immigrant numbers means that this issue will affect us more in the future than it has done in the past.

3953. If we are to aspire to becoming a first-world economy with high-wage, high-value-added industries, we must embrace new technology and ensure the availability of the education and training programmes necessary to underpin that. For years, a pool of technical labour — for want of a better description — existed, with 400 or 500 young university graduates readily available for work. However, following a couple of instances of industrial investment in the technology sector, the labour pool was suddenly wiped out. The SDLP is concerned about that and believes that a much greater training and support service is needed.

3954. The SDLP is delighted to have this opportunity to discuss the economy, and the subgroup has worked extremely well, despite some difficulties. The vast amount of evidence presented to us is a valuable resource that will stand both the subgroup and individual political parties in good stead for the next two or three years. We have been impressed with the passion and commitment of most of the witnesses. They have approached the issues with sincerity and have real hopes that the subgroup will feed back their views and that they will make a difference.

3955. I do not want to talk for too long, so I have run through several points quickly. Many

issues are self-evident, and they have, or will, be raised by others.

3956. I would like to highlight some general points. Mitchel mentioned how Invest Northern Ireland had put a lot into south Belfast. I want to assure him that the investment was not because of Invest Northern Ireland, but because of enlightened political leadership.

3957. **Mr McLaughlin:** It is because of the good MP then.

3958. **Mr Dawson:** That is self-praise.

3959. **Mr Simpson:** It is just the fall-out from Martin Smyth, is it not? *[Laughter.]*

3960. **Dr McDonnell:** It is not self-praise — much of what has happened in south Belfast has been as a result of the development of the old cattle market and the old gasworks. All parties were involved in some shape or form. We had to compromise, pool resources and form partnerships in order to get things done, and that is how we should work right across Northern Ireland.

3961. I want to raise a few points, and, in particular, one on which I disagree with some members. Government needs to be streamlined. Our bureaucratic public service needs an awful lot of improvement and refashioning so that it can become fit for purpose. I heard it mentioned that there are too many Government Departments. The SDLP could not, and would not, agree with that because a bigger issue is involved — that of having stable government through the formation of a stable Executive. To put it bluntly, each party, and certainly the major parties — and I mean no disrespect to the smaller parties, Sean — must have a significant stake in that.

3962. The chair needs at least four legs; without those, it will not work.

3963. **Mr Simpson:** What about a three-legged stool?

3964. **Mr Neeson:** He is not talking about you, Naomi, by the way.

3965. **The Chairperson (Mrs Long):** I was wondering; I have only two legs.

3966. **Dr McDonnell:** Inefficiency in Government has very little to do with numbers of Departments. We have short memories if we do not remember the disaster that was the old DOE eight or nine years ago, when muddle and mayhem were created because one corner of it did not know what another was doing and contrary decisions were made.

*11.00 am*

3967. **Mr Simpson:** What has changed?

3968. **Dr McDonnell:** Whether you break up or amalgamate Departments, if there is mayhem there will be mayhem whether it is internal or external. If people are keen to reduce the number of Departments, we suggest that the mayhem be sorted before their number is decreased. We also suggest that such a reduction will not create efficiencies or competencies where there are none.

3969. **Mr Simpson:** Is that a management fault?

3970. **Dr McDonnell:** I agree that it is a fault of management and leadership. We support moves to reduce corporation tax but we caution that it will not make a lot of difference if other areas are not fixed. A lot of attention is paid to the situation that the low-level corporation tax in Southern Ireland has created; however, that has been around for 40 years but has made a difference only in the past 10 to 15 years. That is because other things, such as the education system, were fixed. It does not matter that there is a zero rate of corporation tax if other problems are insurmountable — you will not attract the investment. I worry about that. It would be useful to fix the other problems and reduce corporation tax. However, the tax is only one part of the jigsaw; the education system and the well-trained workforce are equally important parts.

3971. Many North American cities and regions have re-invented themselves in the past 20 or 25 years as old industry declined. We have learned from them and have been greatly influenced by them. Halifax in Atlantic Canada, with which Belfast has some association and partnership, re-invented itself from being a declining maritime city by moving into the twenty-first century economy and becoming involved in the hi-tech



industry. We have also looked at places such as Pittsburgh, which was a coal mining and steel town that suffered when those industries suddenly collapsed 25 or 30 years ago. It reinvented itself as a hi-tech city, again by moving into biotechnology and other technologies.

3972. I make that point simply because in all cases the engine, tractor and moving force behind those reinventions was a university or universities. We strongly believe that we are not fully utilising the brainpower in our universities. Although they carry out a lot of good research, they are allergic to making money. If this subgroup were to do only one thing, it must be to find a cure for that allergy, so that universities engage with the commercial world. Universities have been the driver and have led economic recovery in the North American cities with which the SDLP and I have been involved.

3973. Some attention has been paid to the economically inactive. Although that is important, we do not believe that it is a primary issue. We have bigger things to fix, and although I would like to know a bit more about economic inactivity — and we have heard some very useful information about that in the past week — it would be foolish to put it high on the A list of issues. I would certainly put it high on the B list, but it is more important to know that people will take jobs if we have a thriving economy with high wages and high value-added production.

3974. The substantial underemployment here is perhaps a more important issue. Graduates and well-qualified people take lowly jobs. I would like to see that problem tackled as soon as possible, perhaps before economic inactivity is dealt with.

3975. It would be remiss of me not to mention the all-island economy. For the benefit of my unionist colleagues at the table, although we passionately believe in removing as many economic barriers as possible on the island of Ireland, we do not wish to do that for purely political reasons. We do not wish to offer political offence, annoyance or irritation.

3976. We have little control in our current political circumstances, but I hope that we will have some control in the future. We believe that

we should take advantage of all of our relationships. We should use both our Irish and our British connections. We must take advantage of all of our connections in whatever way we can in order to maximise any opportunities, including our European links and, as I mentioned a few minutes ago, our American connections. We do not have an awful lot of natural resources and, therefore, we should use any niche or leverage that we can. I was very impressed when — after first being elected to the Assembly — we were dragged off to Brussels. Do you remember that, Barry?

3977. **Mr McElduff:** I do indeed. I am happy to remember that. I could stand up for Ireland, you know.

3978. **Dr McDonnell:** I was in a group that spent some time looking at the situation in southern Tyrol, an area of Austria that was annexed by Italy, which was handed that land as a bribe after the First World War. The Austrians who live there are ambivalent and bi-national — they play either the Italian or Austrian card as it suits, and it is one of the most prosperous regions in either Italy or Austria. I do not mention that to diminish the politics of this matter — we have our political views and each of us, in our own way, holds those views dearly. However, we should not let our economic interests or the prosperity and future of our people and our children be held to ransom to political interests.

3979. On a final note — you will be glad to hear, Chair — any proposed peace dividend will be wasted. We have seen peace moneys arrive, and we believe that the peace dividend will be wasted — just as those peace moneys have been wasted during the past eight years — if there is not restructuring, transparency, openness and honesty created in the entire public body that is handling and delivering those funds. While we certainly wish to see dividends and pump-priming, we believe that if that is handled in the way it has been during the last eight years, it may not make much difference.

3980. **Mr McCarthy:** Chair, may I propose that Alasdair arrange a trip to that area so that the subgroup can examine the issues?

3981. **The Chairperson (Mrs Long):** We will move to proposals later, Kieran.

3982. **Mr McNarry:** You omitted the fact that there are no terrorists there.

3983. **Dr McDonnell:** I want to inform Mr McNarry of the existence of a South Tyrol liberation army. *[Interruption.]*

3984. **Mr McElduff:** A South Tyrone liberation army?

3985. **Dr McDonnell:** I hasten to add that it is 10,000 miles away in Argentina and that it was organised by those who emigrated in 1909. *[Laughter.]*

3986. **The Chairperson (Mrs Long):** Perhaps therein lies a solution to some of our difficulties. We shall now hear from the Ulster Unionist Party Assembly Group.

3987. **Mr McNarry:** I am grateful to, and appreciative of, all of those who have assisted the subgroup in providing written and oral evidence.

3988. As a party for the Union, which has served and given leadership to the country for over 100 years, the UUP recognises the importance of a vibrant economy, not only for stakeholders and investors, but for those benefiting from full employment and prosperity. We also recognise the overwhelming opinion of those in the private sector who signal clearly that there must be political stability.

3989. We endorse those opinions, which are in character with our continuing demands for an equitable partnership between a devolved Assembly and civic society in Northern Ireland. For lasting stability to be attained and sustained, all parties have an obligation to state publicly their unequivocal support for the Police Service of Northern Ireland and all other Crown agencies operating with the approval of Her Majesty's Government to uphold law and order in our country.

3990. Without that publicly stated support, parties are only making a mockery of the efforts being made here to improve our local economy. However, with that support, the Assembly can send a positive and welcome signal that elected

representatives are giving sound leadership as part of their contribution to encourage and renew confidence in internal and external investment.

3991. With regard to the remit with which the subgroup has been tasked, and in particular, the major impediments to the development of the economy, the UUP shares the view expressed by Northern Ireland businesses and their representative organisations that the structural weakness of the Northern Ireland economy has been correctly identified in the four drivers indicated in DETI's 'Economic Vision for Northern Ireland'. In particular, we emphasise the skills gap and the low R&D spend in Northern Ireland. The nature and extent of the skills gap must be a matter of grave concern. The submissions from diverse businesses and sectors almost uniformly referred to a growing skills deficit in the labour market. Alongside that is the fact that unacceptable numbers of school leavers possess poor literacy and numeracy skills.

3992. Northern Ireland's poor record of R&D investment in comparison with the rest of the United Kingdom is of greater significance, when it is considered that the United Kingdom level is merely average for the European Union. The low level of university/business collaboration in R&D — which is less than 50% of the United Kingdom average — contributes, in particular, to the Northern Ireland weakness in this regard.

3993. In common with some other regions of the United Kingdom, the public sector's role as an employer and key economic player is not unusual, nor is the Treasury's subvention in relation to Northern Ireland tax revenues an anomaly in the United Kingdom. The aim of an economic policy should be to increase the private sector, not to shrink the public sector.

3994. In considering the fiscal incentives that may promote FDI and indigenous investment, the UUP believes that a focus on purely fiscal incentives should not entirely dominate debate and discussion on the future of the Northern Ireland economy.

3995. Some commentators have stated that the Irish Republic's corporation tax level has not been the only significant driver in its recent economic success — an education system that is rated third in the world by the World Economic forum, high levels of R&D investment and European Union infrastructure investment have all contributed substantially to that. However, it is widely recognised — and we must take note — that, in a competitive global market, the level of corporation tax does not impact on the ability to attract investment. The Treasury should examine the economic potential of a lower corporation tax rate for Northern Ireland.

3996. A competitive tax regime is essential for the united Ireland — I shall start that again.

*[Laughter.]*

3997. **Mr McLaughlin:** That is OK; it will be in Hansard anyway.

3998. **Mr McElduff:** Very good.

3999. **Dr McDonnell:** It was a Freudian slip.

4000. **Mr Simpson:** That is a press release for us.

4001. **Mr McNarry:** A competitive tax regime is essential for the Northern Ireland economy. While recognising that most taxation issues are reserved, the Ulster Unionist Party believes that a devolved Administration has the potential to act on aspects of the tax burden on businesses, with existing and potential SMEs being fundamental to our regional economy. A small-business rate relief scheme, similar to that which operates successfully in Scotland, should be introduced.

4002. A Northern Ireland Administration should also commit to capping industrial rates at 25%. The Treasury should adopt a more innovative approach to the various taxes that have an impact on business in Northern Ireland with avoidance of the excise duty in fuel, potentially costing the Treasury £380 million a year. There is a very strong case for altering the level of that duty.

*11.15 am*

4003. The uptake of the R&D tax credit has been poor. More generous incentives, a streamlined system and better engagement by Government agencies with, in particular, SMEs on tax credits should be considered.

4004. Public procurement procedures, particularly those with reference to the Investment Strategy for Northern Ireland, should seek to maximise the opportunities for, and support the development of, indigenous enterprises. That can be dealt with locally.

4005. I shall comment on how other matters, including an economic package, could contribute to economic regeneration, and on how that might be delivered. The well-recognised infrastructure deficit — the road network and the public-transport network in Northern Ireland — has been widely recognised as a barrier to economic growth. Addressing that deficit should be the priority in any economic package. That must be additional real money, not recycled money. The energy costs that Northern Ireland businesses face continue to be a barrier to growth. The Carbon Trust has estimated the potential savings to Northern Ireland businesses of investment in energy conservation measures and technologies to be £15 million a year with a total implementation cost of £36 million. There is a strong argument on business and environmental grounds for such measures to be included in an economic package.

4006. The absence of a strategy for Northern Ireland's manufacturing sector is in stark contrast with the strategies that have been developed in Scotland and Wales. Such a strategy would signal that a Northern Ireland Administration was committed to the manufacturing sector's being a powerhouse of a knowledge-driven regional economy, and we would support that.

4007. The emerging skills deficit that exists for basic and specialist skills must be addressed by a partnership of Government, schools, colleges, universities, employers and trades unions. Although that is a broad agenda, some initial actions can be indicated such as focused investment in primary schools to ensure that a firm foundation is laid for basic skills, and literacy and numeracy. We recommend: a new approach to careers guidance in post-primary schools; the creation of a post in the Department of Education with a named individual to take overall responsibility for driving improvement

in science education; and support for apprenticeship initiatives such as those proposed jointly by the Construction Employers Federation and the trades unions.

4008. Why not create a knowledge bank that is similar to that in Wales to provide tailored, focused and unified support mechanisms for businesses with the potential to be high growth, bringing together small innovative firms with researchers, universities, venture capitalists and other business partners? Such a knowledge bank would aid in technology, transferred inward investment and marketing. Let us also consider incentives such as enterprise zones that are different to those that we had in the past.

4009. A network facilitating the emergence of high growth industry clusters should be given time to prove that they can be engines for the growth of knowledge-based regional economies.

4010. We have already mentioned the recent events in Newry and Dungannon, and, across the border, what happened to our party colleague Lord Ballyedmond. Those are grim reminders of what our economy endured for over three decades. As then, it is today not acceptable to say that there is no support for these terrorist acts. When was it ever right to support terrorism in our country?

4011. I hope to end on a positive note. Like Dr McDonnell, I was struck with the people that we met during our deliberations and their candour, optimism, enthusiasm. Above all, I was impressed by their intention that Northern Ireland can do a lot better by improving its economy, and their will to contribute to making that difference.

4012. Their underlying message to this subgroup was that if we clear the way for stability and confidence building, and work out a partnership between a devolved Government and a dedicated business agenda, Northern Ireland can — and will — compete and punch its weight.

4013. The Ulster Unionists will support that, and we hope to contribute with all parties towards making the difference.

4014. **The Chairperson (Mrs Long):** I thank all members who made presentations this

morning for keeping so strictly to time. It has left us a bit more time for the discussion, which is helpful.

4015. The written submissions will be included in the report, which will also reflect proposals that have been made and issues that have been raised by today's presentations. However, the formal recommendations in the report will be based on those measures around which consensus can be achieved. Therefore, in order to prepare the report it would be helpful to focus on the areas in which we can find agreement.

4016. For reference, it may also be useful for to look at the table of evidence. It also focuses on the subgroup's terms of reference, giving options and recommendations that would aid discussion.

4017. We will now open the meeting to discussion and see how things go. If members have any questions to ask, issues to raise or proposals to make, we are free to do that now.

4018. **Mr Simpson:** In Alasdair's presentation, he mentioned the need to watch out for the pitfalls of private sector investment. Could he elaborate on that?

4019. **Dr McDonnell:** That is fairly simple and open. There were several times in the past when foreign direct investment was made, principally in the textile industry. Projects were sited here, worked up for a number of years and subsequently moved to Morocco or Eastern Europe.

4020. That is a very minor word of warning. The point I am making, perhaps indirectly, is that where public money is invested, the point and the purpose needs to be well tied. If a company moves away after 10 or 12 years there must be a clawback.

4021. **Mr Simpson:** I agree with that. I am sure that Alasdair would agree that if the conditions are right for foreign direct investment, there is no need for companies to look elsewhere. We can create the environment that will sustain them here. That is important.

4022. **Mr McDonnell:** That is right.



4023. **Mr Neeson:** I am grateful to Alasdair for reminding me about the American system of assisting small businesses. The Enterprise, Trade and Investment Committee focused strongly on that, and I recommend it to this subgroup.

4024. Coincidentally, there is an organisation in the greater Belfast area called 'Aspire Micro Loans for Business Ltd', which helps small businesses with loans. They are not big loans but at least they help them through difficulties. With small businesses being such a large part of the economy, we should focus on the American model.

4025. **Dr McDonnell:** To follow up on that, I invite members to share the following example. It was the American experience that those who had \$6 million to invest in small business were able to set that up as a guarantee fund or an insurance fund for the banks. The banks in turn were able to loan \$100 million on that. They found that it took \$1 million to administer it — and it was administered efficiently and effectively.

4026. The banks set up a consortium to administer the scheme, and they had a standardised process for small loans, with a failure rate of only 5%. In other words, businesses that collapsed or went out of business represented only about 5% of the total. The rest was money that kept churning and working for people, and going around the system.

4027. I was tremendously inspired by that scheme because there is nothing more annoying than seeing people looking for grants or deals and failing to get them. We all, as public representatives, see that happening. It was awful when LEDU was in existence, because that body seemed to be very arbitrary about to whom it did or did not give money. Whatever plans, schemes or processes LEDU put in place, no one ever understood them and people were just confused by them.

4028. Simply put, anyone who could produce a degree of security was able to claim a loan under the US system. Quite often, that loan may have been secured only against a lease or the claimant's investment in setting up the business. The banks used normal banking practices and

the scheme was very good for businesses because the banks also provided financial discipline and management support. That meant that everyone was a bit happy, rather than having a handful of happy people and the rest angry at not getting access to finance.

4029. **Mr Neeson:** Another interesting thing about that scheme was that it encouraged a lot of women into business. That issue, surprisingly, has not been raised at this subgroup. From a Northern Ireland perspective, it is important to encourage women into business. That was one of the big benefits of the US scheme.

4030. **Mr Dawson:** This is my first opportunity to attend the subgroup, and I am pleased to be here. I have read the reports of previous meetings and have been struck by the recognition that all of the Government Departments should be focused on developing the economy and that the economy does not sit in isolation from the rest of Government. Some new and fresh thinking has been brought to the table. That should not be lost in the final report. The economy is of such importance that it requires the harnessing of all of the power and strength of all of the Departments, for the benefit of the country.

4031. There are many specific issues to consider, as has been highlighted by the presentations that have been made today and at previous meetings. We have just discussed where agreement can be reached on specific measures that could be put in place. I am sure that we could add issues concerning tourism and our desire to promote this part of either the island of Ireland or the United Kingdom. I use those words to address Dr McDonnell's point that perhaps there is a way that that can be done for the benefit of all sides.

4032. I believe that we can reach agreement on R&D tax credits, and that modern apprenticeships must lead to real jobs. There are large numbers of issues that are highlighted in the various reports on which there will be no difference of opinion or difficulty in reaching agreement. However, all of those matters simply refocus on things that the Government have done in the past. There is no step change; it is simply doing

more of the same or improving on what we have done in the past. Those measures will not lead to the step change that the Northern Ireland economy needs in order to move from where it is today to a much better future.

4033. In my view, two issues have emerged from our discussions on adding to the list of measures that will help to create that step change.

*11.30 am*

4034. First, the attitude of the Government, Departments and the Civil Service to the economy is exemplified in planning, bureaucracy and some of the things that the Environment and Heritage Service is involved in, and those are stymieing economic growth. The Government, through its Departments must be seen to promote, rather than stifle, economic development. Industry leaders and businesspeople consider Government policies as a blockage to economic growth. Government attitudes must change.

4035. When I joined industry as a graduate many years ago, my first managing director would never accept that I brought him just problems or concerns about the business — he always demanded that I also identified solutions. That was good training for a raw recruit into any industry, and Government Departments could learn a great deal. While they are good at identifying the blockages to investment — the rules, regulations, planning or environmental issues that will hinder it — they are not good at identifying how the blockages can be overcome. That must change.

4036. Departments often cite the European Union as the problem. They say: “It is driven by Europe, so there is nothing we can do about it.” I simply do not accept that. Those who draft or put in place legislation that comes from the European Union must do so with an eye on promoting business and economic development within the region, rather than gold-plating legislation that may create obstacles. That is one step change, which, although it might sound simple, will be hugely difficult to implement across the Northern Ireland Civil Service and the various Departments.

4037. Another step change involves corporation tax. Different opinions have been put forward on whether the level should be set at the headline rate or should combine several factors which will lead to an effective rate of corporation tax that is lower than the current rate. In many ways, it does not matter which of those we recommend. Instead, it is important that Northern Ireland can boast a rate that is more attractive and competitive than that of our nearest economic rivals.

4038. With regard to R&D, training and investment, I prefer a package of measures that would reduce the effective corporation tax rate, rather than the headline figure. Ultimately, it is important that we have a figure with which the Assembly, Invest Northern Ireland and others who promote economic development can attract investors to Northern Ireland.

4039. Objections to corporation tax variation can be met if, as I mentioned earlier, we endeavour to find solutions as opposed to problems. The potential exists for variation of tax rates in Scotland, the Channel Islands and Northern Ireland, where in the past, different packages have brought about variation in corporation tax levels.

4040. The Chancellor of the Exchequer suggests that large companies may relocate head offices to Northern Ireland, which would lose revenue to the rest of the UK. I am sure that rules can be easily introduced to prevent that happening. It has been said that the loss of revenue to the Exchequer is a red herring. The total revenue generated annually by corporation tax in Northern Ireland is around £500 million and reducing the rate of corporation tax over time would actually increase the tax take to the Exchequer.

4041. All of the objections that have been raised can, therefore, be challenged effectively.

4042. **Mr Dallat:** The vexed question of illiteracy and innumeracy has been a common theme in today’s presentations. A new Assembly will need to take immediate action to address the issue, which affects approximately 250,000 people between the ages of 16 and 64. It is a horrendous problem for employers, and the

influx of people from other countries probably makes the issue even more important.

4043. Apart from the world of work, it is important to recognise that, under the terms of the Good Friday Agreement, equality was not simply about equality between Protestants and Catholics, but equality across the board. There can be nothing better than restoring dignity to people who were failed by the education system; and it means that the cycle of illiteracy will be broken.

4044. We accept that there have been significant improvements at primary and nursery school level upwards, but recent research shows that 1% of people leaving grammar schools have serious problems — that represents approximately 2,500 people. Sixty per cent of the prison population have serious problems. I want to recognise the outstanding work in Magilligan Prison; the ironic thing being that prisoners need to be in long enough to benefit from its courses. I am sure it is not widely known that the flags and emblems for the recent Special Olympics Ireland Games 2006 were, in fact, designed in Magilligan. It shows that there are people there, who had they been given the correct skills, could have made a very valuable contribution to society — indeed many do go on to degree courses.

4045. From the evidence obtained by different Committees during the previous Assembly it was quickly recognised that illiteracy and innumeracy amount to a very big issue. However, we lacked a co-ordinated approach to finding a resolution; sometimes one Committee was unaware that other Committees were collecting similar evidence relating to this very serious problem. The problem came to light only when the Chairpersons of the different Committees met and realised that it was affecting industry in a very serious way.

4046. Hopefully, when the new Assembly comes into being there will be a concerted effort in our schools and colleges to develop the community school concept, which focuses attention on the need for education to continue throughout a person's working life. I recognise the contribution made by the University of

Ulster in its 'Step-Up' programme. The programme operates in the north-west and has given people from working class backgrounds an opportunity to pursue courses in science. It will make a huge contribution to industry in future years and should be rolled out across Northern Ireland as a very good model to follow.

4047. Also, the contribution made by community groups, mostly in association with colleges of further education, needs to be examined and given the recognition it deserves.

4048. All too often, community groups were recognised only when they were in areas of conflict. When the issues in those areas have abated, the contribution of those groups, and the need to encourage partnerships, will not be recognised. In many cases, they will be left hanging without funding, depending on embarrassing overdrafts from banks, with staff working in positions of uncertainty. The general heading of "Literacy and numeracy" must appear at the top of the agenda.

4049. **The Chairperson (Mrs Long):** Two members still wish to speak and, at that stage, all party groupings will have had an opportunity to contribute to the discussion. It may be useful then, if members agree, to move on to more detailed consideration of the table of evidence, so that we can begin to provide guidance on the content of the report.

4050. **Mr McNarry:** Barry, do not be worried about that white Anglo-Saxon Protestant flying around you.

4051. I commend everyone who made presentations to the subgroup. They were useful, interesting and constructive. We may have left things out, and some of the discussions may have been rushed. However, I recommend that the subgroup reserves a paragraph in the report on the effect that criminality has had, and continues to have, on our economy. I am not au fait with the sums of money involved, but money laundering, fuel laundering, and so on, interest Mr McQuillan's organisation, so there must be something in it. He always seems to talk in millions.

4052. While we remain hopeful that the subgroup will hear evidence from young people even after the draft report has been produced, it is important that we deal with how to prepare young people for employment. We need to give a sense of direction — one that we have worked out between us — or we need to sift through all the evidence to find out if employers have predicted the employment choices that will be open to young people over the next 10 years.

4053. **Mr McElduff:** I assure David that I approach this discussion in the sporting tradition of the Gael.

4054. **Mr McNarry:** You have completely lost me now — you had better explain.

4055. **Mr McElduff:** George Dawson made a good point about his first managing director insisting that problems be approached with solutions in mind. When we come to detail the impediments in the table of evidence, we should try to fill out the recommendations/options column as much as possible. For instance, Dr Gilleece's paper goes some way to pointing to solutions relating to the skills deficit; poor correlation between current and future business needs, and educational and vocational provision.

*11.45 am*

4056. The paper that Dr Gilleece prepared considered how the South's education system fits in with the success of the Celtic tiger economy. That paper should enable the subgroup to fill out at least some of the recommendation and option columns in the table.

4057. We should not be afraid to address political instability and uncertainty. We should be courageous enough at least to state formally the desirability of removing barriers that might stand in the way of the restoration of political institutions, without prejudice to individual party difficulties.

4058. **Dr McDonnell:** I put the following issue on the table now, lest it should slip away and be forgotten. I would like the subgroup's report to include a recommendation that, at a later stage, a more specifically targeted investigative report

will be prepared on the commercialisation of brainpower in the universities. George Dawson's earlier comments triggered this thought.

Creating or generating wealth is anathema to the Department of Health, Social Services and Public Safety (DHSSPS). Vast amounts of money are spent on health, but 15% to 20% of that could be generated internally by using existing brainpower and intellectual property. A mechanism is needed to mine that. I want to leave that issue on the table.

4059. **Mr Simpson:** I wish to raise a side issue, which is nonetheless very important. It is something that perhaps the schools or colleges could deal with.

4060. I have had meetings with young business people and university graduates about starting businesses, business incubation, and so on, and I have noticed that there is, in the culture of Northern Ireland, a fear of failure. America was mentioned earlier; if people in America fail in business, it is not seen as an embarrassment, but rather as a challenge and an opportunity to learn from mistakes so that they can move on.

4061. David McNarry mentioned that the subgroup may, at a later date, hear evidence from the youth councils. It would be interesting to hear their views on how that fear of failure can be overcome. Perhaps it is a mental block or perhaps it is because Northern Ireland simply has a culture of embarrassment. However, in order to encourage entrepreneurs we must get across the message that not making it in a business incubation programme or whatever does not make them failures. That fear must be overcome if young people are to be encouraged into business. Schools and colleges may help to achieve that.

4062. **The Chairperson (Mrs Long):** That is a valid point, and it should perhaps be listed as a cultural barrier. Business people such as Richard Branson have said that they consider failure to be a necessary step on the road to success.

4063. **Dr McDonnell:** That is right; people must be rewarded for trying, not punished.

4064. **Mr McNarry:** That is right. There is a punishment for failure, and the cost is high; it



can sometimes involve a person's home and family life. That big risk factor is very off-putting. I have talked to young people — some of whom are still at school — who have been advised not to take any risks and to join the Civil Service.

4065. **Mr Simpson:** God forbid that, but anyhow.

4066. **Mr Dawson:** I fully agree with Alasdair's point that university research should be released into the private sector. That was achieved in the United States with the introduction of the Bayh-Dole Act in 1980, and it may be useful to consider adopting a similar approach here.

4067. **The Chairperson (Mrs Long):** Returning to the table of evidence, the subgroup should try to reach consensus on as much as possible. First, we should focus on where we stand on the identified impediments, recommendations and options, so that we can propose recommendations — which will obviously require consensus.

4068. **Mr McNarry:** Chairperson, you are leading the subgroup in the right direction. I do not know how much we will get through today, but this is a big job. I advised you earlier that I have a meeting to attend shortly, but I am willing to come back after it.

4069. I agree with Barry McElduff's comments. We should identify not only the impediments, but the solutions, too. If we can crack that, we can make reasonable progress.

4070. I congratulate also the officials who put together this paper, which I requested. It is very useful. It is well prepared, very instructive, and I can follow it, so it is virtually idiot-proof.

4071. I suggest that, if everybody agrees — and there will be some overlapping — we should address the impediments with a view to finding solutions. That is what we need to figure out; otherwise all our work is really at a loss. Also, in the horrible event that our report does not mean anything to an Executive, because an Executive has not been formed, it is still important for the body politic that our report be presented to the Governments, so that, in the absence of a devolved Assembly, it will be held in good standing. We will have addressed the

impediments, and we will be saying to the Government that as long as there is direct rule, it is up to them to address the impediments that the elected representatives of Northern Ireland have identified.

4072. **The Chairperson (Mrs Long):** A list of impediments has been identified from the various presentations and discussions. Although it might be a slightly negative place to start, I think that it is important, before we move on, to ascertain whether there are any additional impediments. Are there any that members feel have not been specifically identified?

4073. David, have you identified an additional impediment?

4074. **Mr McNarry:** Barry McElduff.  
[Laughter.]

4075. **Mr McElduff:** If we are trying to identify additional impediments that have come forward in an evidence-based way, it might be helpful to hear from the Committee Clerk at this point.

4076. **The Committee Clerk:** The report must be completed by next Friday, so there are time constraints. It cannot be overly weighty. The big thing is that the evidence has been taken. That, along with the written submissions, will be included, so that is 90% of the work. The issue now is to make sense of all of it.

4077. I hope that I have given a clear picture or the answer to our terms of reference. If we are content to agree that that is the list of impediments, the first of the terms of reference have been met. The report simply needs to list those along with an explanatory note.

4078. With regard to fiscal measures, I have heard from witnesses and from members, with some variations, that we need to create a fiscal environment that meets the needs of Northern Ireland. That includes an element of harmonisation, perhaps on fuel duty. The report must consider how to attract FDI in sufficient numbers to grow the economy — this “new economic trajectory” to which George Quigley referred.

4079. Where there is a lot of agreement is on the fact that the jury is still out on the best

cocktail — there are different views on it. The Economic Research Institute of Northern Ireland (ERINI) is carrying out some key research, which is due to be completed in October and is fundamental to making the case to the Treasury on corporation tax. It would be foolish not to take that into account; the report would not reflect the evidence that we have heard. There have been opposing views from witnesses, who have recommended different approaches. We should be saying that we want the PFG Committee to take cognisance of that, and that any formal recommendations, either from that Committee or from the subgroup as an extension to its work, must be based on research.

4080. **Mr McLaughlin:** The lack of tax-varying powers should be stated as an impediment, as well as addressed in terms of fiscal measures, despite the fact that that issue is addressed in a cross-cutting way in the list of impediments. An “inappropriate and uncompetitive fiscal environment” could apply equally to central Government, but we must be quite specific that we believe that it is possible for agile and responsive Government to drive the agenda for change. If we want a step change, we should be specific about the disadvantages that we face.

4081. **The Committee Clerk:** I should point out that the Assembly has a degree of tax-varying powers. Rates are a local tax, and the Assembly has responsibility for that element.

4082. **Mr Dawson:** We would not support tax-varying powers within the United Kingdom. If taxes were to be varied here, that would have to come under a United Kingdom remit. We would not support the Assembly’s having tax-varying powers.

4083. **Mr McNarry:** Returning to Alan’s point about the ERINI report in October, I propose that, if we are in business, it would be appropriate to hold an evidence session with ERINI on the basis of that report. That body made a very good submission to us last week but, in the light of that report, particularly on corporation tax, an evidence session would be appropriate.

4084. **The Committee Clerk:** That is one of the recommendations that I have listed. The

recommendations — by coincidence and luck more than anything else — include everything that members have mentioned. I have tried to present those recommendations in a politically neutral way. There is a recommendation which relates to what many members have said about usefully working beyond 25 August. We have addressed that in the addenda, but there are outstanding issues.

4085. It seems, from the evidence and from what members have said, that the two big issues are fiscal measures, and to ensure we have a secure case to put to the Treasury, which will look for quid pro quos.

4086. Everyone has mentioned the education and skills agenda. We could usefully spend some months examining those matters.

4087. **Dr McDonnell:** Could I ask for clarification of our agenda beyond 25 August? I would be very eager that that be put on a formal basis. If work beyond that date has not already been formally endorsed, it should be. I believe that there will be fallout and bounce-back, and we may have to continue for two or three further weeks.

4088. **The Committee Clerk:** The formalities are that the subgroup would need to prepare, at least, an outline work programme within the terms of reference that I have suggested. The subgroup would then seek approval from the PFG Committee.

4089. **Mr McNarry:** I propose that we do that.

4090. **Dr McDonnell:** I second that. We must do whatever is necessary to create the space for the subgroup to continue for a further period, as long as necessary.

4091. **The Committee Clerk:** I mentioned those two big issues because they are the two outstanding matters on which work is being done at the moment. Are members content that that would be, so to speak, their outline work?

4092. **The Chairperson (Mrs Long):** That is outlined on page 4 of the table of evidence, at point 13.

4093. **Mr McNarry:** Within that, we have the ability to take oral evidence.

4094. **Dr McDonnell:** I imagine that our efforts may well end up as a subject for debate in the Assembly on 11 or 12 September 2006. If we simply walk away at that stage, everything will fall into a black hole.

4095. **Mr McNarry:** That is a well-made point.

4096. **Dr McDonnell:** That would be a good academic exercise, but I believe that we should continue to try to elevate the debate, and lead, with others. If that entails our meeting until the end of September, so be it.

4097. Sean Neeson and David McClarty sat with me on the previous Committee for Enterprise, Trade and Investment, and we did some tremendous work. However, with the Assembly falling in 2002, a lot of the work that we addressed was lost. Indeed, many of those issues and themes are coming back to us now. I would like to ensure that we do whatever we can do to follow through on those matters. We must ensure that the effort that has been made over the last five to seven weeks is not immediately lost. I would be happy to endorse David's proposal that we create space and take whatever steps are necessary to create that space.

4098. **The Chairperson (Mrs Long):** The terms of reference on that matter are addressed at page 4 of the table of evidence. Point 13 potentially provides the terms of reference for continuation of work beyond the date of the Assembly debate. There is no reason why that work could not continue until 23 November to ensure that we have a formal report, regardless of the outcome on 24 November.

*12.00 noon*

4099. **Mr McLaughlin:** I have no objections, in principle, to continuing the work, because it is useful to explore each other's positions and develop as broad a consensus as possible. We need more time. However, we must make it clear in the terms of reference that we are respecting the deadline of 24 November. The task of the subgroup is to facilitate the restoration of the Executive.

4100. **The Chairperson (Mrs Long):** The proposal is that the subgroup recommends to the PFG Committee that new terms of reference

be agreed to allow the subgroup to continue its work in the coming months. Are members content?

*Members indicated assent.*

4101. **The Committee Clerk:** Are members content with the two areas that the subgroup will work on?

4102. **Mr McNarry:** We do not need to be content. If we want to put it to a vote, it works by a simple majority, but it is better if there is consensus.

*Members indicated assent.*

4103. **Mr Dawson:** Is there flexibility for other areas to be incorporated into the terms of reference?

4104. **The Chairperson (Mrs Long):** It may be possible to add those following the Assembly debate. However, the important thing is to get agreement that the subgroup continues.

4105. We touched on impediments. If members are satisfied that all the impediments have been listed, we must consider whether there is consensus on the recommendations/options which flowed from the discussions.

4106. **Mr McNarry:** I have not had time to read the paper fully, and I am sure that is also the case for other members. I am content with the suggestions on impediments. However, rather than simply signing off the paper, can we have a bit of rope in case we wish to add to it?

4107. **The Chairperson (Mrs Long):** Absolutely. At this stage, we are merely agreeing the issues to be highlighted in the draft report, which will be subject to further discussion next week. No one will be restricted from changing their positions in those discussions.

4108. **Mr Dawson:** While I appreciate the earlier comments with regard to the word "neutral", the word "harmonisation" in recommendation/option 2 could be substituted with "competitive variation". The phrases would read, "competitive variation of corporation tax" and "competitive variation of fuel duty". The term "competitive variation" achieves the same thing without using a word that is loaded.

4109. **Mr McLaughlin:** Competitive variation caused the problem in the first instance, and created the cost differentials. “Harmonisation” is a better word.

4110. **Mr Dawson:** There should be a variation that allows for a competitive environment to be established. With respect, “harmonisation” is not a neutral word.

4111. **The Committee Clerk:** I understand where both sides are coming from. I avoided the word “harmonisation” in other areas — no, I confess, I said it somewhere else.

4112. **Mr McLaughlin:** What about “fuel duty reform”?

4113. **Mr Dawson:** What about “corporation tax reform”?

4114. **The Chairperson (Mrs Long):** Is there consensus on that change of wording?

*Members indicated assent.*

4115. **Dr McDonnell:** It is essential that members unanimously agree on as much as possible, otherwise the Secretary of State and others will treat us with contempt. We must prove that we can do the job in spite of difficulties and sneers from others. We do not want to belittle, or make light of, political differences or views that people hold dear, but we must try to ensure that we come out of this with a report that we can rally around and stand beside.

4116. **The Chairperson (Mrs Long):** With regard to the recommendations and options, there are issues around fiscal measures and the economic package. There has been some difference of opinion on the economic package, its extent and, perhaps, a lack of detail in what it should be targeted towards. It may be better to set it aside, consider the recommendations and options first, and then come back to it, if that is agreeable. Perhaps the best way is to take the table of evidence a page at a time to find out if anyone has issues.

4117. Are there any other issues on page 1 of the table of evidence, or are members happy for those to be included in the draft report for further discussion next week? I will assume that silence means consensus.

*Members indicated assent.*

4118. **Mr McLaughlin:** Russian consent.

4119. **The Chairperson (Mrs Long):** Do members wish to comment on pages 2 and 3 of the table of evidence?

4120. **The Committee Clerk:** Members may not have read the paper word for word, and we would not want to cheat you — staff never do that, anyway.

4121. **Mr McNarry:** That would be par for the course.

4122. **The Committee Clerk:** The paper discusses some big issues, particularly in relation to the economic package, but no one has spoken about an exact figure. The issues have been discussed in the Preparation for Government Committee but not in the subgroup. The paper contains recommendations about using money from the reorganisation of the public sector from a streamlined Government and seeking an agreement from Government to use that money to foster and develop economic growth. Peace dividends are a separate issue.

4123. **Mr McNarry:** My point may be controversial, but we will have a crack at it anyway. On reflection, the Executive failed to address this question and found themselves looking for schemes and, in some cases, inventing them.

4124. It is vital, certainly for Ulster Unionists, to have a good look at the books before entering into Government. Secrecy surrounds the costs to Northern Ireland and how Departments distribute money. There are bad management practices, which may be rectified by expediencies such as reducing the number of Departments, and so forth. However, the actual sum must be negotiated, and I hope that the subgroup will make that recommendation. The sum must be additional, and it must address specific needs; it cannot be pinched from somewhere else, be recycled or be some hidden type of punishment. Members have spoken about community groups and how they are falling asunder due to lack of sustainability.



Millions of pounds have gone in that direction, and it has not been productive.

4125. This is a major subject, and I appreciate the Committee Clerk for pointing it out; it should be a priority. The subgroup will report to the Preparation for Government Committee in order to advance towards an Assembly debate. It would be rather foolish of the members of the Preparation for Government Committee to prepare to go into Government if they did not have this package signed, sealed and delivered, if they did not know what they were inheriting financially and if they did not know what money they could have that was not on a merry-go-round system. They would have to be able to create budgets that made sense. They should not have to go into an Executive that are charged with bidding for budgets without having a clue about what they were doing. The Executive could make decisions and subsequently discover that money was being pinched from their allocation to give to another budget.

4126. We need to consider high-spending budgets in particular. There is no political rhyme or reason why schools are closing in the manner in which they are or why people are still waiting for hospital beds. No reasons are given for those situations.

4127. In the past, money was thrown at a problem; I hope that lessons have been learnt from that. If this subgroup does anything, it should ensure that those who are preparing to go into Government approach it in the right sense and do not chase the buck once they have entered office. Rather, they should have a precise idea of the situation in order to prioritise spending for Northern Ireland not only in the short term, but the long term as well.

4128. **The Chairperson (Mrs Long):** Part of the remit of the PFG Committee is to consider a draft Programme for Government at one of those stages. Members of the Committee have identified that one factor that will have to be considered is the current financial status. The subgroup may wish to reiterate that point, as the PFG Committee will consider our report.

4129. **Mr McNarry:** That is my point.

4130. **The Chairperson (Mrs Long):** It would help to restate that point.

4131. **Mr Cree:** The economic package must be a stand-alone sum of money and should not come from any nefarious sources. Recommendation/option 5, for example, suggests using savings from the Review of Public Administration (RPA) to fund economic initiatives. I remain to be convinced that there will be any savings from the RPA, so I would not want to depend on being able to recycle that money. We must be careful that that does not happen.

4132. **The Chairperson (Mrs Long):** The economic package is a separate issue. The table suggests that any savings from the RPA should be reinvested in the Northern Ireland economy rather than being allowed to drift.

4133. **Mr Cree:** Should we change the wording to read: “Any savings made from the RPA should be reinvested in initiatives”?

4134. **Mr Dawson:** There are two key issues. First, current budgets must be ring-fenced and must grow appropriately, as per inflation and whatever the Barnett formula provides. Secondly, there must be a discrete package to ensure that the managed transition of Northern Ireland from its position today to the high-performing economy of the future is sufficient. Those two key elements — the existing budgets and an additional element — will ensure that resources are available for the Executive to deliver what must be delivered.

4135. **The Chairperson (Mrs Long):** We are drifting to a discussion of the economic package. We should try to consider other options that are not tied to that. We can re-examine the economic package in more depth, as it will require more exploration.

4136. With regard to the recommendations/options on page two, Leslie Cree has proposed that recommendation/option 5 should read:

*“That any savings made from the RPA and any reduction in government departments should be used for an agreed period to fund initiatives”.*

4137. Are members agreed?

*Members indicated assent.*

4138. **Dr McDonnell:** I have serious misgivings about there being any savings from RPA. We have been promised savings, but I am concerned that all we will do is to pile an inefficiency in one area on top of another, resulting in double the difficulty.

4139. **The Chairperson (Mrs Long):** George raised an issue about recommendation/option 6, which states:

*“The PfG recommend the centralisation of government responsibility for economic matters within a single department or agency.”*

4140. He indicated that it should become a core function of all Departments to promote economic growth. Is that something that could be added to the wording? Would there be agreement to that around the table? It would take on board some of the issues raised this morning.

4141. **Dr McDonnell:** There was a group, the name of which escapes me, set up in OFMDFM. Was it the Economic Policy Unit?

4142. **The Committee Clerk:** I think that one of the witnesses suggested that that has become moribund.

*12.15 pm*

4143. **Mr McNarry:** The SDLP Minister of Finance and Personnel did not like it, so — *[Interruption.]*

4144. **The Committee Clerk:** I could be wrong.

4145. **Dr McDonnell:** Of course, there will always be niggles here and there. There needs to be a co-ordinating body, but it is not necessary for that body to be in competition with the Finance Minister or DETI. It should focus on creating a real-world awareness across health, planning and other Departments. I am not disagreeing with the suggestion, but I am worried about yet another agency being piled on top of existing agencies. We should be trying to streamline and to clarify the lines of communication.

4146. **Mr McLaughlin:** We should remind ourselves that we are talking about a step

change, and the concept of a lead agency is one such measure in that process. Departments will continue to manage budgets and to make projections regarding their own programmes. It is quite evident that there is a multiplicity of responsibilities; that there is duplication and replication; and that the system is stagnant. This may not be the complete answer, but it is, at least, an attempt to map out a different way of doing business and to have a one-stop shop for key economic and strategic decisions.

4147. We talked about tourism earlier, and some useful points were made. Seven Departments have an input into the strategic decision-making. That is a nonsense. So, the idea of a lead Department, properly staffed and resourced and with the authority to bring the other Departments along with it, is a step change that we should recommend seriously.

4148. **Mr McNarry:** I would subscribe to that idea, but it is a question of whether that lead Department would be embodied in OFMDFM — or, indeed, in OFM, which we might get. If we take cognisance of the evidence that we have gathered, it is clear that there is a need to ensure that there really is joined-up government. It must be co-ordinated, particularly with regard to the economy. At present, it is not; it is all over the place.

4149. On examining the evidence from the Strategic Investment Board (SIB), I was astounded at the influence that it has. I was taken aback at how much say it has in education spending, and I am not clear to whom it is accountable. If we decide that such a lead body is necessary, it must be made clear that it has to be an accountable body and the Assembly needs to know to whom it is accountable. It must also be a regulated body as regards certain amounts of money.

4150. **The Chairperson (Mrs Long):** There are three themes coming out of this. First, there seems to be consensus on recommendation/option 6 — perhaps this is the easiest way to move this forward — that there is a necessity for centralisation within a single agency or Department. There are two other issues. One is embedding within all Departments the obligation to create the right context for

economic development. The other issue is the one that David McNarry raised about the accountability of that single agency or Department.

4151. Is there consensus on adding those two additional comments to recommendation/option 6?

4152. **Dr McDonnell:** I want to add emphasis to what David McNarry has said. The Strategic Investment Board (SIB) has done some good work, but I am astounded at the expansion of its role — it is almost freelancing. The SIB has grown far beyond what was intended, and it has been almost let loose as a “Rottweiler” organisation for direct rule Ministers. It has usurped on much wider powers than were intended for it.

4153. I want to see accountability, not in order to obstruct, but in order to ensure that there is management and leadership and that the right guidance is given. I made the point earlier that the worst thing that we could do would be to create another body — another bull in a china shop — that would only serve to go over old conflict and to put up more barriers.

4154. **Mr Dawson:** I take the point that there is an accountability issue with the SIB, but I want to emphasise that its attitude to investment and growth is one that we should seek to foster across all Departments.

4155. **Mr McNarry:** That is agreed.

4156. **Mr Dawson:** The way in which the SIB approaches projects and drives them forward should be replicated elsewhere. Although I accept the accountability issue, we should not cut down the SIB too much.

4157. **Dr McDonnell:** The culture is right, but the process has perhaps not been properly managed.

4158. **The Chairperson (Mrs Long):** We have a draft amendment to recommendation/option 6 that would take account of that.

4159. **The Committee Clerk:** This may be what we will need to do with the recommendations/options until we arrive at a single focus. Are members content with recommendation/option 6 as it stands, plus:

*“and that all Departments work to agree a common strategy and vision in support of promoting economic growth and social partnership that is accountable to an Executive.”?*

*Members indicated assent.*

4160. **The Chairperson (Mrs Long):** We shall move on to recommendations/options 7, 8, 9 and 10. Do members wish to make any comments?

4161. **Mr McLaughlin:** This may be a parochial concern, but when we talk about “economic corridors” in recommendation/option 9, people tend to think of Belfast and Dublin. Could we agree to insert the word “designated” before “economic corridors”, because that would allow us to talk about border corridors and to have an open-ended approach to identifying areas for development? The Dublin Government have developed the concept of a western Atlantic region, and that would be of particular benefit to south Tyrone and Fermanagh.

4162. **The Chairperson (Mrs Long):** Are members content?

4163. **Mr McNarry:** I just want us to be positive. Recommendation/option 9 is that research be commissioned to identify economic opportunities. We could fill a Twelfth of July bonfire with research documents, so, rather than go down the road of commissioning further research, I want to see some real, in-depth analysis of the completed research in order to determine what more needs to be done.

4164. **Dr McDonnell:** Three or four projects were pulled out of.

4165. **Mr McNarry:** I neither dispute what Mitchel has said nor am I disagreeing with him.

4166. **Mr McLaughlin:** David has made a valid point.

4167. **Mr McNarry:** We will be behaving like civil servants if we continue to ask for more research.

4168. **Mr McLaughlin:** It will sit on a shelf somewhere.

4169. **Dr McDonnell:** Mitchel is not disagreeing with that. He is saying that there should be four or five projects rather than simply the one that is likely to materialise.

4170. **The Chairperson (Mrs Long):** There are two suggested amendments to recommendation/option 9. The first is that instead of saying “research is commissioned”, the suggestion is that it should read:

*“detailed analysis of research is undertaken to identify economic opportunities”.*

4171. Secondly, it is suggested that the word “designated” be inserted before “economic corridors”, so that more than one economic corridor can be considered.

4172. **Mr Dawson:** May I go further than that and say that we should be establishing pilot clusters and economic corridors that can be analysed?

4173. **The Chairperson (Mrs Long):** Is there consensus? The amendments are that we ask for in-depth analysis of research; establish clusters; and economic corridors to be — *[Interruption.]*

4174. **Mr Dawson:** Agreed clusters and economic corridors to be analysed — *[Interruption.]*

4175. **The Chairperson (Mrs Long):** To be analysed — and we are talking about designated economic corridors, as opposed to a single economic corridor. Is there general consensus — *[Interruption.]*

4176. **Mr Dallat:** I am sorry. Could I say something about recommendation/option 8 of the table of evidence?

4177. **The Chairperson (Mrs Long):** We will come back to that. Let us try to deal with recommendation/option 9, and tie that down.

4178. **Mr McLaughlin:** Sorry, John.

4179. **The Chairperson (Mrs Long):** We will return to recommendation/option 8. Are members reasonably content with the thrust of what we include in the draft paper? Obviously, we will have an opportunity to fine-tune that later.

4180. **The Committee Clerk:** I am sorry. Could I hear recommendation/option 9 again?

4181. **Mr Dawson:** That the focus should be on action, as opposed to research.

4182. **The Chairperson (Mrs Long):** We are recommending that detailed analysis be undertaken on research to identify economic opportunities. We are suggesting the establishment of agreed effective clusters and collaboration.

4183. **The Committee Clerk:** Do members wish to include reference to pilot clusters?

4184. **The Chairperson (Mrs Long):** Yes.

4185. **Mr McNarry:** With a view to at least 75% of them being in the Strangford constituency, around Newtownards. *[Laughter.]*

4186. **The Chairperson (Mrs Long):** I suspect that at least one other member will support that. Kieran will agree, but I am not sure that you will get consensus from everyone else.

4187. **Mr Dawson:** Mr Neeson has left, but I am sure that he would support East Antrim.

4188. **Mr McNarry:** Put it to the vote. *[Laughter.]*

4189. **The Chairperson (Mrs Long):** Are members content with the amendments to recommendation/option 9?

*Members indicated assent.*

4190. **The Chairperson (Mrs Long):** John, you may raise your suggestion on recommendation/option 8.

4191. **Mr Dallat:** I am very nervous about suggesting something that might well end up on a Twelfth of July bonfire. They are big enough already.

4192. Recommendation/option 8 is very well worded, but would it be sensible to suggest the promotion of an enterprise culture throughout the education system, in both primary and secondary schools? We are lacking in that area, but some schools do that work extremely well through young enterprise programmes.

4193. **Mr McNarry:** I support John, but could I reintroduce what we said in our presentation about creating a designated post in the Department of Education, with a named



individual to take responsibility for science education? Could that be added?

4194. **The Chairperson (Mrs Long):** There seems to be general — *[Interruption.]*

4195. **Mr McNarry:** I would nearly go as far as to say that the named individual should take over all responsibility for the entire area covered by recommendation/option 8, but I will stick to my brief.

4196. **The Chairperson (Mrs Long):** Two slight amendments have been proposed to recommendation/option 8. First, that a designated individual should be appointed to deal with improvement in science education. There seems to be general consensus on that matter. Secondly, we have John's proposal that we stress the need to have a greater enterprise focus throughout the education system. There was also broad consensus on that.

4197. **The Committee Clerk:** I have written: "hampering future economic growth and encouraging an enterprise culture in schools". Is that sufficient?

4198. **Mr Dallat:** Yes.

4199. **The Chairperson (Mrs Long):** You wanted to state specifically that that was to be from primary level right through the education system?

4200. **Mr Dallat:** Yes, I think that that is important.

4201. **The Chairperson (Mrs Long):** That addresses some of the issues that we discussed earlier. David Simpson raised the matter of addressing the cultural barriers.

4202. **Mr McLaughlin:** If we are serious about a step change, it must be policy-driven. It is not an add-on; it is a very specific statement on how we can develop a different culture.

4203. **Dr McDonnell:** R&D is mentioned twice in recommendation/option 8 of the table of evidence. We will be making a mistake if we regard R&D as something that sits on the margins. We are all in favour of R&D because we are all in favour of motherhood and apple pie. The reality is that we must mine down into the matter of R&D. It is not enough to simply

mention R&D; we must mention applied R&D at least. There is much R&D going on in universities.

4204. **The Committee Clerk:** That is why I have included "enhanced knowledge transfer" in the table. Is that not sufficient?

4205. **Dr McDonnell:** I am not attacking or criticising. We must take a harder line because we are looking at a corner of the R&D possibilities. It can be called applied R&D, because it applies to the real world.

4206. Dozens and dozens of academics and professors in universities are conducting all types of research, but it is all irrelevant to our needs. We want relevant R&D; call it what you like — relevant, applied, commercial or economically exploitable — but that is what we want.

*12.30 pm*

4207. **The Chairperson (Mrs Long):** To be fair, that is where the term "research and development" comes from; the development suggests that it is applied. The wording could be enhanced in the draft report. It is also worth noting that research that is not immediately commercially exploitable is necessary in order to create a foundation that will enable commercially exploitable research to be undertaken. It is a matter of ensuring that turnover is continual.

4208. **Dr McDonnell:** I do not know whether it is appropriate, but I mentioned that a further report is needed, either from this subgroup or a similar group, to mine into the R&D issue. The entire area is murky and confused, and we will not exploit that. George Dawson made a useful point about the foundations laid by the Bayh-Dole Act in the United States. Suddenly, entire cities started to grow and have a future. We need to find some way to make that happen here.

4209. **The Chairperson (Mrs Long):** Dr McDonnell obviously wants the wording of recommendation 8 in the table of evidence to be strengthened. Is there consensus on that?

*Members indicated assent.*

4210. **The Chairperson (Mrs Long):** It might be useful for that section of the report to include additional information on international experience, which can be considered when the draft report is being amended. Would that be helpful?

4211. **Dr McDonnell:** It would be useful to include the relevant paragraphs from the Bayh-Dole Act in the United States.

4212. **Mr Dawson:** It is available on the Internet; it is named after the two senators who tabled the Act.

4213. **The Chairperson (Mrs Long):** Would a summary of the Act and its impact suffice?

4214. **Dr McDonnell:** A few paragraphs are all that is required.

4215. **Mr McElduff:** I want to be assured that “curriculum’s” as it appears at recommendation 8 at point 1 in the table of evidence is the correct plural form. Are there any Latin scholars around? *[Laughter.]*

4216. **The Committee Clerk:** That is one for the spellchecker.

4217. **The Chairperson (Mrs Long):** Recommendation 8 reads “college curriculum’s” instead of “curricula”.

4218. **Dr McDonnell:** It should be “curricula”.

4219. **Mr McElduff:** It is crucial to introduce that point at this juncture.

4220. **The Chairperson (Mrs Long):** On that scholarly note, are there any other issues to be raised?

4221. **Mr Dawson:** As we are going in reverse order, I turn to point 7. Should we really give up money set aside for an energy subsidy by transferring it elsewhere?

4222. **The Committee Clerk:** I understand that it is not a question of giving up the money. Last week, I talked to a senior official from the Department of Enterprise, Trade and Investment (DETI) about what might be available so that I could bring that to the subgroup’s attention.

4223. The energy subsidy was agreed several years ago — with the Federation of Small Businesses in particular — as part of a package to offset the costs that would be incurred as a

result of re-rating. Regrettably, the European Competition Authorities would not allow the money to be used for that purpose.

4224. DETI has fought against that decision for the last two years, but to no avail. The money has remained in the budget, but is being whittled away on little things. Although I am not sure that the money will be lost, redirecting it would provide an opportunity to spend it, rather than simply leaving it because of the European Competition Authorities’ decision. This proposal would allow it to be spent on a related matter.

4225. **Mr Cree:** I realise that I am coming late to the party, but I want to comment on option 7. Under that option, if we spend the £20 million, it is gone. It might be more sensible to use any such money to help those same companies create alternative energy schemes that use wind turbines, for example, where the benefits would be ongoing.

4226. **Mr Dawson:** My understanding was that the subsidy was originally £30 million.

4227. **The Committee Clerk:** Yes, it was.

4228. **Mr Dawson:** I do not know where the other £10 million has gone.

4229. **Mr McNarry:** It has been laundered by Peter Hain.

4230. **Mr Dawson:** The subgroup will refer its report to the PFG Committee, and the report will subsequently be debated in the Assembly Chamber. There would be furore on the Floor of the Assembly if the subgroup accepted a reduction in the amount of money, and agreed that it should be used for a different purpose, without further discussion with Ministers.

4231. That money should not be shifted elsewhere.

4232. **The Chairperson (Mrs Long):** Would it be more acceptable for the draft report to note the difficulties surrounding this amount of money and state that further discussion with Ministers is necessary? The draft report could highlight that the subgroup does not accept the European Competition Authorities’ decision, but that other options may need to be explored.

4233. **Dr McDonnell:** Yes. The draft report should highlight that the money is there and that it must be put to some good use. There are several potential uses for that money. I cannot not disagree with the suggestion to use the money to fund alternative energy sources, for example, as that sector is being neglected.

4234. **The Chairperson (Mrs Long):** Recommendation 7 could outline two options, namely alternative energy and the cushioning of industrial derating, and say that further discussion is required. Are members content for it to be reworded in that way?

*Members indicated assent.*

4235. **The Chairperson (Mrs Long):** Are there any other issues on page 3? I am conscious that recommendation 10 continues onto the next page.

4236. **Mr McNarry:** Is recommendation 11 the relevant place to introduce a positive suggestion to create a knowledge bank? It is important to do that because a coalition of participants from businesses, universities etc are coming together to make a difference. We do not mind what it is called, but we want such a group to be created. “Knowledge bank” sounds good.

4237. **The Committee Clerk:** That is probably not the right place in the draft report, but it could be included as a separate recommendation.

4238. **Mr McNarry:** Fair enough.

4239. **The Chairperson (Mrs Long):** Let us leave that suggestion until the end and add it at an appropriate place. Is that acceptable?

4240. **Mr McNarry:** Yes. We are near the end.

4241. **The Chairperson (Mrs Long):** I must leave the Chair by 2.00 pm. That leaves us with an hour and a half.

4242. **Mr Simpson:** I must leave by 1.00 pm.

4243. **Mr McNarry:** I must leave for another meeting, but, with your indulgence, Chairperson, I shall return.

4244. **The Chairperson (Mrs Long):** Bearing in mind that we will return to the suggestion of creating a knowledge bank, are there any other

matters on page 4 of the Table of Evidence that members wish to address?

4245. **Mr Cree:** Yes. Recommendation 10 is not strong enough, as there is a cultural problem. I was reminded very forcibly of that last month when I visited Prince William County in Virginia. It is not named after King Billy, but the Duke of Cumberland, second son of George II, who came first at Culloden.

4246. **Mr Dawson:** Shame, that.

4247. **Mr Cree:** The Government of Prince William County has addressed many issues, including a plan for the development of the entire county. The Government’s planning department has a brief that no major plan should take longer than two weeks and building control only one week to be approved.

4248. With the greatest respect, to change our plan to a similar one would cause a major problem, but we must try to do that and be much more efficient. To pour in resources without that necessary cultural change — a can-do scenario — would be to miss a trick.

4249. **Mr Dawson:** Pouring in resources would be absolutely the wrong approach. The more resources and people in place, the more delays will arise.

4250. The structure of the Planning Service must be changed and a fast-track system developed.

4251. **Mr McLaughlin:** We must hammer in the message that change must happen in steps.

4252. **Mr Dallat:** The planning process must be analysed with a view to streamlining business applications. At present, the Planning Service maintains that, under equality laws and so on, it must deal with all planning applications on a strict rotation. Hence, a proposal for a 100-bed hotel in an area where applications are time limited would be pitched in a queue along with pigeon lofts. I have nothing against pigeons; such an application must be considered on a different track. That could happen almost overnight.

4253. **Mr McElduff:** A reference should be made that urges the Planning Service to take an enabling attitude to economic development.

Leslie and George referred to a culture within the Planning Service—

4254. **Mr McLaughlin:** It should tell us what we can do rather than what we cannot do.

4255. **Mr McElduff:** Exactly. A brilliant effort was made to establish an enterprise park in Fintona, which is a targeting social need (TSN) area. Incredibly, the Planning Service blocked it, despite having sufficient flexibility and the discretion to allow it. The Planning Service must have a more enabling culture.

4256. **The Chairperson (Mrs Long):** Streamlining will probably depend on there being robust area plans that are timely, as opposed to what currently exists. Whether an application is fast-tracked will depend on whether it lies within a particular zone.

4257. **Mr Dawson:** We must also address the issue of time limits on reports from statutory consultees. The Environment and Heritage Service is particularly slow in producing reports to the Planning Service. Statutory consultations should be time limited so that the process is not disrupted.

4258. **The Chairperson (Mrs Long):** There seems to be consensus that the attitude in the Planning Service must change, that an enabling culture must be developed and that business applications should be streamlined on the basis of robust area plans. Deadlines and time limits must be imposed on statutory consultees so that responses are swift. Is there consensus on those issues?

*Members indicated assent.*

4259. **The Chairperson (Mrs Long):** Are there any other issues that must be addressed? We have dealt with recommendation 13, which outlines the potential terms of reference for an extension of this subgroup's remit. An additional point was raised about the creation of a knowledge bank. Is there any opposition to that, or is there consensus on including that in the draft report for further discussion?

4260. **Dr McDonnell:** Chair, can you remind me what the "knowledge bank" is?

4261. **The Chairperson (Mrs Long):** I will ask Leslie, because it was a proposal made by David McNarry before he left the meeting. Leslie, will you elaborate on that idea?

4262. **Mr Cree:** If I had a crystal ball, I probably could. I believe that David referred to a central register for all knowledge or information on a wide range of subjects, so that everyone can access it. It is David's idea.

4263. **The Chairperson (Mrs Long):** I understood that the reference was in regard to research.

4264. **Dr McDonnell:** Leave it in.

4265. **The Chairperson (Mrs Long):** If members are content to include a reference, we can expand on it in the draft report.

4266. **Mr McLaughlin:** We will have to return to the amended document anyway. We will then have the benefit of the written material.

4267. **The Chairperson (Mrs Long):** Indeed. We will be able to drill down and find out exactly what that entails in order to make a firm decision. Is everyone content?

4268. **Mr McLaughlin:** With regard to presentation, does recommendation 11 on co-ordinating the delivery of economic strategies align itself more naturally with recommendation 6, which concerns a single department or agency for economic matters? Should it be relocated? It is a presentational detail; I have no issue with the content.

4269. **The Committee Clerk:** Those recommendations deal with slightly different matters.

4270. **The Chairperson (Mrs Long):** There are 13 recommendations.

4271. Issues remain around some of the impediments listed — infrastructure deficits, and so on. It might be better to deal first with any recommendations that members may have before moving on to the financial package. For example, Barry McElduff suggested earlier that under impediment 9, "Political instability and uncertainty", some politically neutral comment should be added to show the importance of the restoration of devolution. Are there any other



proposals, or are members content that all bases have been covered?

*12.45 pm*

4272. **Mr Dawson:** We cannot deal with this matter today, but it would be totally wrong to identify an impediment without also identifying a possible solution. That will probably take a bit longer, but we really need to have a solution for every impediment. Some of the solutions that have already been identified will also apply to other impediments.

4273. **The Chairperson (Mrs Long):** I notice that some of the recommendations and options have not been aligned with the impediment that they are to address. For example, it seems as if no solution has been proposed for impediment 10, which deals with poor planning processes, although we have just discussed potential solutions. Thus, some solutions have been identified, but they are not necessarily aligned with a problem. Nonetheless, gaps will remain. Can we agree that if members wish to propose additional suggestions, they do so by next Tuesday, by which time the draft report will, I hope, be available? Members would have an opportunity to discuss any formal proposals then.

4274. **Mr Dawson:** Would it be appropriate to e-mail the proposals for inclusion?

4275. **The Committee Clerk:** You can e-mail them to me. We had only a day between the commissioning of this table and its preparation, so it is not meant to be comprehensive. The report will also include other issues that have been raised, so please e-mail any proposals that you may have.

4276. **The Chairperson (Mrs Long):** That would be helpful. The first draft of the report will be circulated to other members, so highlighting the issues at this stage will make it much easier for them to be aware of different parties' proposals.

4277. The economic package is the only issue that has not really been addressed, other than in a brief discussion earlier. It seems that consensus on that is vital if an economic package is to find favour with the Treasury. Is there scope for discussing issues around the economic package,

suggested uses for the package and even, perhaps, how much it might be? At this stage, however, I suspect that the more critical issue will be what it is to be used for.

4278. **Mr Dawson:** I am sure that all parties could contribute to that. However, it is also true that parties would need to consult more widely with their party groups on the issue.

4279. **The Committee Clerk:** In trying to pull together the report, I noticed that there is a lack of coherence on this matter, because of the lack of time or energy devoted to what the package might be, how it would be funded and whether it could be done with the Treasury. The evidence that we have heard thus far from the witnesses has really been about oiling the wheels — investing in education and skills, redirecting resources, using savings, and so on. No one — including the political parties — has said that the amount needed is £5 billion, £6 billion, £10 billion or £20 billion. No one has said that just for the sake of saying it. I cannot put anything in the report other than what has emerged from the evidence. I doubt that there will be any major agreement on that in the time remaining.

4280. **Mr McNarry:** I wish to return to the issue of political stability. The draft report will not be complete unless there is some agreement, if not consensus, on political stability and the issues, raised in my party's presentation, about the Police Service of Northern Ireland and the ancillary services. This matter must be finalised; if not today, then at a later date.

4281. We must finalise our opinion, if not our recommendation, particularly if we will be indexing specifics in an economic package. Certainly, in business, it would be difficult to present credentials for an economic package to a banker if you were not able to give assurances on stability. I suggest that we earmark that for reconsideration.

4282. **The Chairperson (Mrs Long):** The issue was addressed a few minutes ago in your absence. The Ulster Unionist Party Assembly Group's views will be reflected in the draft report, as will the views of all parties. However, consensus is required on formal recommendations. It has also been agreed that, with regard to

impediments for which no direct recommendation has been suggested, such as political instability, members can make a proposal at Tuesday's meeting when those matters will be discussed. Indeed, members can do so in advance of the meeting via an e-mail to the Committee Clerk.

4283. **Mr McNarry:** I suspect that the subgroup, even in my absence, has reached consensus on all the recommendations. I am mindful of the use of the word "consensus" with regard to political stability, and of Alasdair McDonnell's words on the importance of unanimity in our report. Therefore, I encourage anyone who has an impediment against support of the Police Service of Northern Ireland to demonstrate a change of heart so that we might have unanimity on that matter.

4284. **The Chairperson (Mrs Long):** I am sure that all parties will take note of that.

4285. By now, most of the report has been dealt with. Are members content to move on to the next item on the agenda, which is any other business, or are there any other any final remarks on the draft report or the table of evidence?

4286. **The Committee Clerk:** I am eternally grateful to members. The subgroup's agreements and amendments will be included in the report.

4287. **Dr McDonnell:** I want to make an off-the-cuff suggestion. The subgroup should take a little extra time, if required. It should not waste time. However, there should be a little slippage. I do not suggest that we drift. I believe that we take the necessary time to get the report as right as possible.

4288. **Mr McNarry:** Has it been suggested that next week's meeting should, at least, be allocated time until 4.00 pm?

4289. **The Chairperson (Mrs Long):** Members must decide how long meetings should last.

4290. **Dr McDonnell:** I am not available during the week after next. If possible, I would be eager to take an extra day or two to tweak and work on the draft report before it is presented. Members are aware that the recall of the Assembly has been postponed by a week. I do

not know how much time the Preparation for Government Committee needs to digest the draft report. However, rather than rush it, we must strive to get it right within the time constraints.

4291. **The Chairperson (Mrs Long):** The report must be with the Preparation for Government Committee by 25 August 2006. No slippage is possible on that date because it is tied to the date of the plenary. A previous extension that was sought was granted. However, that does not preclude the subgroup from having additional meetings if they are required.

4292. **Mr McLaughlin:** Could the subgroup hold longer meetings?

4293. **The Chairperson (Mrs Long):** Yes. The draft report is not likely to be available until Monday evening at the earliest.

4294. A long session on Tuesday might not be particularly productive, as much of the feedback that we need is likely to come from discussions that members of the subgroup will have with their parties. It may well be that a longer session — for example, on Thursday — would be more productive, as members will have had the opportunity to discuss the issues with their parties.

4295. Members might want to give that some thought.

4296. **Mr McNarry:** I agree with what Alasdair said. Some members are still on holiday, and others are due to go off on breaks. Therefore, given diary commitments, if an extension is granted, can we be sure that these proposed meetings would have a quorum? In addition, it would make sense if we could agree, perhaps, that we will be available on certain days for a certain amount of time. If we do that — Hallelujah! — we might be able to finish the report more quickly.

4297. **The Chairperson (Mrs Long):** Perhaps parties could tell the Committee Clerk, by close of play tomorrow, whether they will be able to provide representatives on Tuesday and Thursday and for how long.

4298. **Mr McNarry:** George Dawson made a very valid point about the need to consult with party colleagues. It is something that the UUP

members of the subgroup need to do, particularly if the report is to be finalised.

4299. **Dr McDonnell:** I agree with that. At this stage, there is no point in my going to speak to party colleagues. Some of them are interested, and some of them saw the deliberations on the Internet, but, by and large, I need to have a draft report to show them. I need a wee bit of time to do that. I am not trying to create obstacles or hurdles. The subgroup is moving steadily in the one direction, and parties are beginning to slot into step with each other. There is not so much as the thickness of a sheet of paper between most of the parties on economic matters.

4300. **The Committee Clerk:** There are to be two additional meetings, which could not have gone ahead only for the extension. Mr McNarry is right to say that it would be useful to build in time and to assume that members will continue to work after lunch on both of those occasions. That can be taken as read.

4301. **Mr McNarry:** Those meetings will be next Tuesday and Thursday.

4302. **The Committee Clerk:** I am quite happy to meet with members after the Tuesday meeting to take note of any suggestions, so that when the subgroup meets on Thursday, I will be able to reflect on those. Obviously, I will not change the report, because that must be done by consensus, but, at least, I will have a note of those.

4303. **Mr McElduff:** Would it possible to have an afternoon meeting on Thursday? Given that the draft report may become available on Tuesday, an afternoon meeting would give members an opportunity to consult their party colleagues if required.

4304. **The Committee Clerk:** It might be difficult to get the draft report cleared for the PFG Committee the next day.

4305. **Mr McElduff:** That is all right.

4306. **The Chairperson (Mrs Long):** Obviously, the timing is quite tight. I understand that, as the report will be available only at close of play on Monday, there will not be much opportunity to consult with party colleagues by Tuesday morning. I am conscious that that is a pressure. It would

be useful to see the amendments that have been tabled today in the draft report. There may be other issues that we will identify on Tuesday that can be included, which would allow members to have discussions with their colleagues, so that the draft report can be finalised on Thursday.

4307. If members were happy that Tuesday and Thursday are to be longer sessions, it would be helpful if they could tell the Committee Clerk whether their party will field representatives for the entire meetings. It is important that we know that in advance.

4308. There is one item of “Other Business”, and that is to draw members’ attention to the 11th Annual Northern Ireland Economic Conference 2006, which will be held on 4 October at the Hilton Hotel in Templepatrick. It may be of interest given that its title is “Making the Step Change”, which is particularly relevant to our discussions.

4309. Do members have any further items of business that they wish to raise?

4310. **The Committee Clerk:** May I just reassure members about timing? The subgroup will submit a draft report to the PFG Committee. The parties will highlight certain issues, so the PFG Committee will take time — perhaps a week — to make some changes.

4311. **Mr McElduff:** That is a good point.

4312. **The Chairperson (Mrs Long):** The next meeting will be held at 10.00 am on Tuesday 22 August. At that meeting, we will consider the initial draft report. The only question that remains is whether members wish to hold next week’s meetings in closed session, which would be the norm when considering draft reports. If members opt for closed sessions, a Hansard report would not be published. Do members have any views on whether to hold closed or open sessions?

4313. **Mr McNarry:** Would the draft report be discussed in open session at the PFG Committee, with Hansard present?

4314. **The Committee Clerk:** Normal Committee practice here and anywhere else is for a draft report to be debated in closed session. A

Committee would not want its findings known before publication, especially if differences of opinion exist. I assume that the PFG Committee will adopt what is a sensible convention. However, that is entirely a matter for the subgroup.

*1.00 pm*

4315. **Dr McDonnell:** I propose that we discuss the report in closed session, not for reasons of secrecy but to give the subgroup a bit of time and space, not to mention privacy, in which to thrash it out and brainstorm. It is also good practice.

4316. **Mr McNarry:** Are you coming on Tuesday?

4317. **The Chairperson (Mrs Long):** Is Dr McDonnell's proposal agreed?

*Members indicated assent.*

4318. **Mr McLaughlin:** If there has been agreement between Barry and David, the world might end. *[Laughter.]*

4319. **The Chairperson (Mrs Long):** If issues arise from today's discussion, or from any discussions that members have with their colleagues, the sooner that those are referred to the Committee Clerk the better. That enables them to be put on the agenda at the earliest possible juncture.

*Adjourned at 1.01 pm.*



---

## **Appendix 3**

# Sub-Group Workplan

---

---

## SUB-GROUP ON THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND WORK PROGRAMME

	Week 1: w/c 17 July	Week 2: w/c 24 July	Week 3: w/c 31 July	Week 4: w/c 7 August	Week 5: w/c 14 August	Week 6: w/c 21 August
<b>Monday</b>	17.07.06	24.07.06	31.07.06	07.08.06	14.08.06	21.08.06
<b>Tuesday</b>	18.07.06	25.07.06	01.08.06	08.08.06	15.08.06	22.08.06
	<b>Meeting 1 (10am)</b> <i>Chair: F Molloy</i> first meeting of subgroup	<b>Meeting 2 (10am)</b> <i>Chair: F Molloy</i> Evidence Sessions Northern Ireland Business Alliance (10am–11am)  Federation of Small Businesses (11am–12pm)  InterTradeIreland (12pm–1pm)	<b>Meeting 4 (10am)</b> <i>Chair: J Wells</i> Evidence Sessions John Simpson (10.15am–11.15am)  Dept of Enterprise, Trade and Investment (11.15am – 12.15pm)  Enterprise NI (12.15pm – 1.00pm)	<b>Meeting 6 (10am)</b> <i>Chair: A Maginness</i> Evidence Sessions  Moy Park (10.15–11.00)  Ulster Farmers Union (11.00 – 11.45)  Wrightbus Ltd (11.45–12.30)  DFP (12.30 – 1.15)	<b>Meeting 8 (10am)</b> <i>Chair: D McClarty</i> (TBC)  Consideration of Written Evidence	<b>Meeting 10 (10am)</b> <i>Chair: F Molloy</i>  Consideration of Draft Report
<b>Wednesday</b>	19.07.06	26.07.06	02.08.06	09.08.06	16.08.06	23.08.06
<b>Thursday</b>	20.07.06	27.07.06	03.08.06	10.08.06	17.08.06	24.08.06
	<b>Meeting 1 (10am)</b> <i>Chair: F Molloy</i> first meeting of subgroup	<b>Meeting 3 (10am)</b> <i>Chair: J Wells</i> Evidence Sessions Strategic Investment Board (10– 11 am)  Invest Northern Ireland (11–12pm)	<b>Meeting 5 (10am)</b> <i>Chair: F Molloy</i> Evidence Sessions Industrial Taskforce (10.15am – 11 am)  NICICTU (11am – 11.45am)  Dept of Education (11.45am – 12.30pm)  Dept for Employment and Learning (12.30pm – 1.15pm)	<b>Meeting 7 (10am)</b> <i>Chair: N Long</i> Evidence Sessions  Northern Ireland Tourist Board (10.15–11.15)  Economic Research Institute of Northern Ireland (11.15–12.15)  NICVA (12.15–1.15)	<b>Meeting 9 (10am)</b> <i>Chair: N Long</i>  Emerging Issues and Conclusions	<b>Meeting 11 (10am)</b> <i>Chair: J Wells</i>  Agree Final Report
<b>Friday</b>	21.07.06	28.07.06	04.08.06	11.08.06	18.08.06	25.08.06
						deadline for reporting to PFG Committee







Published by TSO Ireland and available from:

**The Stationery Office**

(mail, telephone and fax orders only)

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 6005522

Fax orders: 0870 6005533

You can now order books online at [www.tso.co.uk](http://www.tso.co.uk)

**The Stationery Office Bookshops**

123 Kingsway, London, WC2B 6PQ

010 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

The Stationery Office Oriel Bookshop

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 6065588

The Stationery Office's Accredited Agents

(see Yellow Pages)

*and through good booksellers*

Printed in Northern Ireland by The Stationery Office Limited

© Copyright 2006



[www.tso.co.uk](http://www.tso.co.uk)

ISBN 0-33-960181-7



9 780339 601819