Session 2006/2007 **First Report**

COMMITTEE ON THE PREPARATION FOR GOVERNMENT

Report on the Economic Challenges Facing Northern Ireland

VOLUME 3
WRITTEN EVIDENCE SUBMITTED TO THE SUB-GROUP

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Terms of Reference

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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.

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Section 2: Additional Follow-Up Information submitted by Witnesses

Appendix 4

Section 1:
Written Evidence
Submitted by Witnessess

Business Alliance

Background

- This economic briefing is presented by the following business organisations:
  - Confederation of British Industry — *Declan Billington*
  - Federation of Small Business — *Glyn Roberts*
  - Institute of Directors — *Michael Maguire*
  - NI Chamber of Commerce and Industry — *Lord Rana*
  - NI Centre for Competitiveness — *Stephen Kingon*

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Economic briefing for MLAs
16 May 2006


Northern Ireland Economic Briefing
Northern Ireland Economy – Current Assessment

Things look like they are going well

- NI GDP growth levels, at 2%-3%, have equalled or outperformed the UK average since mid/late 1990s
- Manufacturing output outperformed the UK average since late 1990s, with proportionally fewer job-losses than the UK
- Employment is at a record high
- Unemployment at a 26 year low
- NI's GDP growth is currently the fourth fastest-growing of the 12 UK regions

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But… here's what's really happening

- Northern Ireland's apparent strong performance conceals underlying structural weaknesses:
  - over dependence on the public sector;
  - underdeveloped private sector;
  - low levels of business formation and R&D spend;
  - low levels of labour market participation; and
  - high levels of long-term unemployment and uneven sub-regional growth
  - an annual subvention from GB is not sustainable

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Overdependence on the public sector

- NI public sector equates to 61% of GDP, compared to UK's 42% and RoI's 27%
- Public sector, retail and hospitality account for 64% of all jobs
- NI public sector employs 1 in 3 of all workers and 60% of all females in employment
- Per-capita public sector employment is greater than that of any Russian state at the break-up of the Soviet Union

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Underdeveloped private sector

- 89 per cent of local firms employ fewer than 10 people
- Only 65 companies employ more than 500 workers
- 10 companies account for 50% of all NI exports
- NI has second-lowest level of business formation of the 12 UK regions
- NI has second-lowest level of business growth in the UK

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Low levels of labour market participation

- Over 530,000 people (41% of working-age population) are not economically active
- There are worrying underlying trends: Since 1978:
  - Unemployment fell by 24,100 - 45%
  - Employees in employment rose by 171,690 - 33%
  - Incapacity benefit claimants rose by 67,753 - 156%
- The rise in incapacity claimants is almost three times the total fall in unemployment

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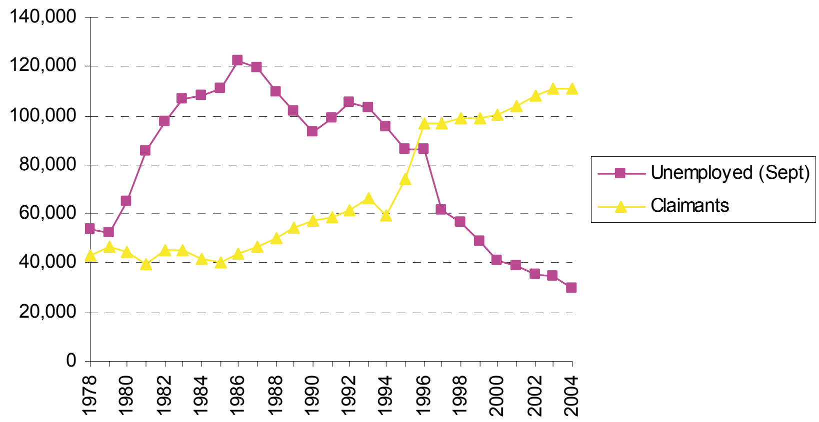
Falling unemployment masks alarming rise in benefit claimants

Unemployment and Incapacity claimants from 1978 – 2004 (September)



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Labour market issues

- NI has the highest level of long-term unemployment in the UK
- NI has the highest level of youth unemployment in the UK
- NI has amongst the best - and the worst - qualified working populations (with 2 or more A-levels)
- Some wards in Belfast and Derry have amongst the highest levels of deprivation in Europe
- A third of graduates leave Northern Ireland and 75% of them don't come back

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NI needs 141,000 new jobs

- To meet current average UK participation levels by 2015, Northern Ireland must create 68,400 new jobs
- We need 40,400 additional jobs for the growing population
- In total, 108,800 jobs must be created in by 2015 to raise the participation rate to the UK average and to provide jobs for our growing working age population
- With a further 32,000 jobs potentially lost through contraction in manufacturing and agriculture, Northern Ireland needs to create 140,800 new jobs by 2015

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New threats are emerging

- Low-cost, low-tax international competition
- NI cost base is high and getting higher
  - Red tape, rates, energy, transport, environmental regulation, insurance, economic crime – all increasing
- CAP reform is reducing support for agrifood exports
- The impact:
  - anticipated decline in manufacturing jobs - 20,000
  - agri and other sectors - 12,000

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Where are we today?

- Increased number of departments has increased the cost of government and diluted service delivery due to overlaps and greater complexity
- Direct rule is creating policies that will define the future structures and funding of Northern Ireland for the next decade
- Government is effectively reducing the subvention through decreased spending and increased taxation
- Economic Development Forum (EDF) studies suggest that government's economic development strategies will not deliver the growth, jobs and prosperity we need
- Facing the need to create an additional 141,000 new jobs by 2015

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Where do we begin?

- There is no quick fix for the problems of Northern Ireland
- increased public expenditure alone is no answer
- Any solution is long-term and needs active partnership between elected representatives, the business community, trades unions, the public and voluntary sectors
- We must agreed a plan to grow the private sector and stimulate private sector investment
- We must reshape the public sector to support and manage the transition to a private sector-led economy

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We need to think differently about how we create…

- A business friendly environment that creates and supports the conditions for growth
- Northern Ireland as a location for international business
- A public sector that has excellence in service delivery and which helps stimulate private sector investment

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What tools do we need?

- Stable government and a supportive civic society to encourage community and business confidence
- An attractive, profitable and safe location for international investment
- A competitive tax and financial incentives regime to increase the attractiveness of Northern Ireland as a location for both foreign and local investment
- An environment that encourages local companies to become internationally competitive and that stimulates an entrepreneurial small firms' culture

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Managed transition from public to private sector led economy

- A radical and flexible strategy that reshapes the public sector, stimulates private sector investment and delivers this managed transition in the context of
  - a sustained investment in infrastructure
  - a skills strategy matched to the needs of the economy
  - a flexible and portfolio approach to risk
  - flexibility in regulation and planning
- Exploit the opportunities of all-Island markets and economy

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What are the required outcomes?

- A stable society and a prosperous economy offering economic prosperity and social inclusion for all its citizens
- Greater foreign direct investment, increased business start-up and growth all operating in a world-class infrastructure
- Increased productivity, R&D & innovation, exports and greater GDP per capita
- An increased tax take enabling a significant reduction in the subvention
- 141,000 new jobs by 2015

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Summary

- Current approach to economic development will not deliver the growth and the 141,000 new jobs we need
- We need a more radical approach to change the trajectory of the local economy - to grow the private sector and stimulate private sector investment
- We must reshape and refocus the public sector to support the transition to a private sector-led economy
- There is no quick fix; Any solution is long-term and needs active partnership between elected representatives, the business community, trades unions, the public and voluntary sectors

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Summary

- We need to develop a business friendly environment that creates and supports the conditions for growth and is attractive to international investors
- International investment must be persuaded that Northern Ireland is a stable and safe investment location
- To move from public to private sector led economy we need a competitive tax and fiscal environment and the proactive promotion of investment, entrepreneurship and business formation

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Summary

- The bottom line is to deliver outcomes that include

  - 141,000 jobs,
  - increased exports and greater GDP per capita
  - increased R&D & innovation
  - increased tax take and reduced dependence on subvention

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Federation of Small Businesses

Presentation to Economic Sub-group,
Preparation for Government Committee
Parliament Buildings, Stormont
Tuesday 25th July 2006

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Introduction

The FSB is Northern Ireland's largest business organisation with nearly 6000 members and 200'000 members across the UK. We are an independent, non-party business lobby group, who campaigns on behalf of the self-employed and all those who run their own small businesses.

Northern Ireland is a small business economy; with 98% of all business being small and over 89% of business employ less than 10 staff.

The Federation of Small Businesses welcomes the establishment of this working group, principally to develop an all party consensus on what needs to be done to address the problems and challenges which lay ahead and hopefully to form the basis of an economic programme for government for a future devolved administration.

While 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 have a real understanding of what our economy needs to be sustainable and provide the future prosperity, Northern Ireland needs.

Developing our small business sector is essential if Assembly members are serious about growing our private sector. We believe that developing new indigenous small businesses that can use Research and Development and export to new markets across the globe is the future of our economy.

We need a future Assembly administration to hit the ground running in terms of having a radical economic programme for government which has ownership not just of the political parties in the Assembly, but of the wider social partners in Northern Ireland.

(1) **To identify the major impediments to the development of the economy in Northern Ireland**

Insurance Costs

Successive FSB surveys have shown the negative impact of high insurance costs in Northern Ireland. While the premiums have stabilised they remain far too high and Government and Insurance Industry must ensure that a central objective of a stable and expanded local insurance market which can provide cost effective premiums in Northern Ireland.

For full details of our research, please visit www.fsb.org.uk/ni

Education and Skills Training

There is a major concern that nearly 25% of school leavers are emerging with poor levels of literacy and numeracy skills in Northern Ireland.

The growth of employment which will come with any future economic growth can only be achieved as long as the workforce is sufficiently trained and capable to meet the requirements of the posts.

The Federation of Small Businesses has expressed surprise over the recent NI Audit Report on the low levels of numeracy and literacy which could have a negative impact on the local economy in Northern Ireland.

This report makes very grim reading, particularly given that over £40 million has been spent and we have seen no real improvement in the levels of children's numeracy and literacy in Northern Ireland

If the Government is serious about Northern Ireland competing on a world market then they must address this skills crisis, otherwise this problem will be carried onto the next generation affecting future employment needs of business.

Getting the right level in skills in our school-leavers is essential if we are to grow a sustainable private sector and provide the jobs and investment that we all need for the future

Our recent 'Barriers to Growth' survey singled out a lack of basic skills as being of major concern to existing employers. Whilst most employers do undertake training, much of this takes place through informal channels, although there is a willingness amongst small businesses to improve upon this; as survey responses from Northern Ireland indicate;

- 65% willing to undertake staff training if funding was forthcoming
- 51% willing to undertake staff training if wage compensation for employees while training was available
- 33% willing to undertake staff training if it could be delivered in the workplace
- 30% would like to receive better advice and guidance about appropriate training

The major skills areas identified from Northern Ireland as being weaker than other UK regions are;

- communication skills
- customer service skills
- basic IT skills
- foreign language skills

The major skills areas identified as being relatively better than other UK regions are;

- advanced IT skills
- sales-and-marketing skills
- technical skills

The FSB believes that there must be a substantial programme of restructuring and investment in the education and training system to raise standards generally, and increase focus upon specialisms.

An overhaul of the education system must place an enhanced emphasis on practical skills development at its core. The role of universities and colleges of further education must be at the heart of change, with partnerships being formed between educationalists and the business community.

For example, the FSB has formed a partnership with the Association of Northern Ireland Colleges to create the Future of Students of Business awards. This recognises the best student from each of the 16 FE Colleges throughout Northern Ireland undertaking a business related course at level 3 (equivalent to A level) or above The scheme is open to both full time and part time students and the winner from each college is presented with a certificate and a bursary.

Another example which we have been monitoring is the Business Village concept in North Down. This is an innovative model, involving a partnership between a number of bodies including the local council, the local college of further education and Invest NI, targeting local start up and fledgling businesses, and providing infrastructure to allow them to grow.

The FSB welcomes the recently announced review of government departments in Northern Ireland. ***FSB has recommended a merger of the Department of Employment & Learning and Department of Enterprise, Trade and Industry to create a Department of Enterprise, Employment and Learning. This new body would take the lead in a policy aimed at building a skills-led enterprise economy.***

Land Border with the Republic of Ireland

Many Issues such as European funding, Energy, Corporation Tax, Mobile Roaming Charges, Fuel, Environmental Taxes, Trade and Banking which affect Northern Ireland's business community can only adequately be addressed by practical cross-border co-operation.

Small businesses makes up the over 90% of all business on this island. Therefore the FSB urges the NI Assembly in conjunction with the Irish Government to recommend InterTrade Ireland host regular meetings of appropriate organisations to develop strategies to address cross-border small business issues. These organisations could include for example

- Organisations that specifically represent typical small businesses on the island of Ireland
- OFCOM/COMREG
- The main Banking Institutions
- Ministerial Representatives from the Assembly & Dail
- Invest Northern Ireland and Enterprise Ireland

This development would complement existing cross-border bodies and would increase co-operation in a cost effective and transparent manner for typical small businesses on both side of the border.

European Union

The FSB recognises that with over 70% of legislation originating from the European Union a greater local co-ordination focus is vital. Therefore the FSB supports the establishment of an Assembly Committee covering the European Union, as recommended in its evidence to the Committee of the Centre Enquiry. The EU should be the subject of a separate Assembly Committee, rather than having to compete with other important subject areas as it did under the Committee of the Centre.

The Assembly Committee on European Union Affairs could give organisations like the FSB, who have had concerns over regulation and other aspects of the EU, a direct line of communication with locally elected representatives.

In addition the FSB want to see the establishment of a Consultative Forum on the European Union to bring together the various interests among the wider Civic Society and other key players in the European Union arena in NI. The NI Assembly could establish this European Key Players Forum or while the Assembly is currently suspended, the Northern Ireland Office from convening the proposed Key Players Forum.

Is envisaged that this Consultative Forum be made up of Northern Ireland's three MEPS, NI Members of the Committee of the Regions, NI Members of the Economic & Social Affairs Committee, the Social Partners, and Assembly Members (hopefully from an Assembly Committee on Europe). Relevant Civil Servants from appropriate departments and the local EC office could be in attendance as observers to this Forum.

Research and Development

Currently there is a major lack of investment in research and development, with Northern Ireland previously having the lowest spend in the UK and much of the European Union.

Many small businesses simply do not have the resources, financial or otherwise, to invest in this area. In respect to many of those who do, FSB believes that those who invest are discriminated against on the basis that the tax credits available are applicable only to those registered as limited companies. This discrimination should be removed and greater encouragement given to all minded small businesses.

We need to see greater use of the tax system to encourage more small businesses using R&D.

The Federation of Small Businesses would like to see Invest Northern Ireland and Department of Enterprise, Trade & Investment use local indigenous small businesses who have successfully used R&D to expand their business and exported to new markets.

We believe that the creation of these R&D Champions would help make the connection to the typical grassroots business owner and market the whole concept in a more effective way

Low Levels of Labour Market Participation

We have referred to the problem of education and training in our opening paragraph. This can be put into perspective by current statistics on the local labour market, with just over 40% of the working age population being economically inactive. Analysis of the underlying trends indicates that the rise of incapacity benefit claimants stands at almost three times the total fall in unemployment.

Northern Ireland has the highest levels of long-term unemployment and youth employment in the UK – and whilst there is a proud history of educational achievement at the top – it also encompasses the worst qualified working sector in the UK at the bottom.

A growing dependence on benefits must be quickly reversed through more stringent government policies. The prevention of those leaving school from going straight into the benefit system must be a priority to reduce the youth unemployment rate.

If this group begins their adult life as unemployable, it will be much more difficult to 'turn them around' at a later age.

At the other end of the education spectrum, traditionally, a high number of university students have left Northern Ireland upon their graduates to develop their careers overseas. It is essential that greater incentive is made to retain their services with the province.

Crime

According to our 'Lifting the Barriers to Growth' Survey, which questioned nearly 19'000 small business owners across Northern Ireland and the rest of the UK? Northern Ireland has now the highest level of business crime in the UK,

Over 57% of those small businesses surveyed have been the victims of crime on at least one occasion in the last year, which compares unfavourably with the UK average of 51%. Only 60% surveyed reported crime to the PSNI, with the remaining 40% not reporting as they did not believe it would achieve anything.

Crime against small businesses is currently having a major detrimental effect, and is proving to be one of the principal barriers to running a successful business in Northern Ireland.

Our research reveals that the true extent of crime against businesses is not revealed in official figures because many businesses have effectively 'opted out' of the criminal justice system. Those businesses who report crime tend to do so for insurance purposes rather than getting the issue dealt with.

The most common crimes are threatening behaviour, intimidation, vandalism and vehicle damage.

The FSB has produced a number of recommendations in relation to this area;

- Extent of business crime measured more accurately, by having it measured as a distinct category
- 100% first year tax relief for investment in security systems
- Business crime made a key performance indicator for the PSNI
- Businesses encouraged to report all crime to the PSNI
- Clear commitment given by criminal justice system to tackling business crime
- Sentencing guidelines revised to ensure all crimes of similar nature are treated equally
- Planning regulations relaxed in respect to installing protection systems for premises
- Business crime compensation scheme should be established
- OCTF make racketeering and extortion a core priority

Infrastructure

Northern Ireland can only grow economically if its infrastructure undergoes a radical programme of modernisation. It has suffered from underinvestment for far too long and as a result the FSB is concerned that business will be unfairly penalised through additional taxation to make up for this.

The work of the Strategic Investment Board has a major impact on shaping the Northern Ireland economy. Charged with implementing the Northern Ireland Investment Strategy it has the potential to create innovative opportunities for existing businesses in the supply chain.

The FSB believes that Public Private Partnerships have a role in improving the quality of our public services, however there may be an issue as we envisage the size and scale of the new procurement contracts under the Investment Strategy could exclude SME's.

The challenge is to ensure that procurement policies are more efficient with regard to administration; however, this should involve contracts within the local market where possible. We intend to encourage the Strategic Investment Board to take steps to ensure local companies have the opportunity to win contracts

The SIB aught to avoid bundling contracts into mega-projects that result in prohibitively large contracts that no company in N. Ireland could serve. Prime contractors should use techniques that advance SME subcontracting so that our local economy will benefit from this investment

The FSB strongly suggest that representatives from Small Businesses should be appointed to the SIB Governing Board to ensure that they have the maximum experience and expertise available to fulfil their role.

(2) **To consider fiscal incentives that may promote foreign direct investment and indigenous investment**

Corporation Tax

The FSB supports the call made by the Industrial Task Force for a harmonisation of the Corporation Tax rate with the Republic of Ireland, at a rate of 12.5%. However, we recognise that there is strong concern from the Treasury to altering taxation rates between parts of the UK.

There is a strong case for Northern Ireland to being given 'special status', at least temporarily, given the legacy of the Troubles.

It is also important to note that a number of fellow EU member states have also reduced their rate and this provides an additional area of competition.

Fuel Duty

The variance in fuel duty between Northern Ireland and the Republic of Ireland is an example whereby sensible cross-border co-operation would be mutually beneficial.

As with Corporation Tax, we recognise the opposition to the principal of uniform taxation throughout the UK being broken. However, the need for innovative solutions means that such changes must be considered.

This variance has created a major market in smuggling, and as a consequence, has damaged (up to closure) many legitimate businesses. FSB believes that such a trade will always exist as long as there is the potential for illicit profit, and therefore some form of cross border arrangement must be implemented.

We are pleased that the recent Northern Ireland Affairs Select Committee report on organised crime has adopted many of our recommendations. In particular, they have supported our call for the level of fuel duty to equalised with the South, which would take away much of the incentive for the cross border fuel smuggler.

Industrial De-Rating

The FSB is currently examining the Small Business Rate Relief scheme which would encompass manufacturers as part of a financial benefit to the wider small business community.

This scheme is currently in operation in England and Scotland and the Department of Finance & Personnel have indicated that they are also studying its operation in those two areas of the UK.

FSB is currently consulting its membership in order to take into consideration their concerns. When this is completed the Federation will publish its results and suggest a model which could be adopted which is appropriate for Northern Ireland

Rather than seek exemptions for one sector our policy has always been to get a fair deal in the rating system for our all small businesses which ensures that businesses do not close because of high rates bills and which allows businesses to have the capital to grow

Fiscal Incentives

We would encourage the UK Government and the Assembly Economic Subgroup to look at all of the options for addition fiscal powers for the Northern Ireland Assembly, looking at best practise both in the UK and in other countries which have similar devolved structures.

(3) **To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered**

Currently the FSB is in the process of consulting our membership on what such a package should contain as it is crucial that whatever is produced has the wider ownership of the business community.

It is however very clear that our infrastructure deficit, the high cost of doing business and how we more effectively use our tax / rates system to kick start the private sector all will be essential elements in such a package.

We feel that if our economy is not sustainable that we must have a united approach by both a new Assembly Administration and UK Government as to how we make it sustainable.

It is our hope that this committee will help develop a consensus as to what such a package will look like and more importantly how much it will cost.

When the FSB has concluded its own internal consultation of it members we will be happy to publish the findings to help stimulate the debate in this area.

Government and other agencies such as Invest Northern Ireland should look at the Global economy, examining areas in which gaps in the market currently exist and ensuring that those opportunities are successfully exploited by local businesses.

A future Assembly Executive should look at best practise around the world, in particular the American model of small business development.

Countries such as the Republic of Ireland and other successful economy's, who have achieved economic sustainability, clearly are models which Northern Ireland could learn a great deal from.

The FSB would like to see the establishment of Joint Government/Business taskforce to start this process and ensure that we learn from the success of others from around the world.

Federation of Small Businesses
July 2006

InterTradeIreland

Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

Introduction.

InterTradeIreland, the Trade and Business Development Body, wishes to thank the Committee for the opportunity to address this Sub-Group of MLA's which is considering the economic challenges facing Northern Ireland. The Sub Group has agreed the following Terms of Reference:

- To identify major impediments to the development of the economy of Northern Ireland.
- To consider fiscal incentives that may promote foreign direct investment and indigenous investment.
- To consider how other matters, including an economic package – peace dividend – could and how this might be delivered.

InterTradeIreland's response will focus primarily on the first and third issues, and will specifically address these within the context of our legislative and strategic remit, which has already delivered value to more than 9,500 companies across the island of Ireland.

First we will identify the major impediments to the development of the economy of Northern Ireland, before showing how all-island collaboration can contribute to economic regeneration as part of a wider economic package.

Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

By many indicators the Northern Ireland Economy has been performing well...

Wealth has increased.

- Increased wealth: GVA per head more than doubled in NI (+101%) in period 1990-2003: this is the biggest change of any UK region and exceeds the UK rate (+86%).

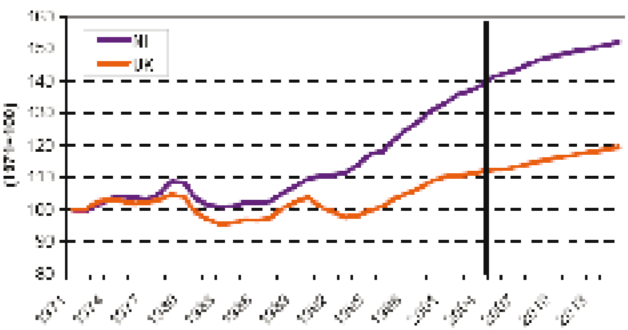
Jobs have increased, mainly due to growth in service sector .

- More jobs: Employee jobs grew by 30% in the period 1990-2005: UK growth in the same period was 9%. Since 1996 Northern Ireland has experienced the fastest growth in employment of any UK region. The strong growth in employment is largely due to ' catch-up' in retailing (as the multi national retail chains all expanded into Northern Ireland) and business services (the well documented increases in call centre employment), and to growth in public services, particularly health. The impressive headline employee growth does however mask the marked decline in manufacturing employment, although it should be noted that this decline was less severe in Northern Ireland than in the UK as a whole

Unemployment has decreased.

- Lower unemployment: figures from the Labour Force Survey show that NI unemployment fell by 58% in the period 1992-2005: more than in the UK as a whole (-50%).

Figure 1. Employee growth, NI & UK 1971=100



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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

However this apparently strong performance masks long term embedded structural weaknesses, that are reflected in two core metrics.

1. Public/Private Sector Imbalance.

The economy is overly dependent on the public sector.

- In 2004/2005 public spending as a share of GDP in Northern Ireland was 67.4% increasing to 71.3% in 2005/2006. The UK average figure was 42% in 2004/2005 rising to 43% in 2005/2006. The comparative figure for Ireland 2005/2006 is 31% of GDP.

- The public sector is responsible for 1 in 3 of all employment, against 1 in 5 in the UK and Ireland, but contributes only 27% of Northern Ireland Gross Value Added.

- Government spending in Northern Ireland is supported by an annual subvention from the UK treasury of around £6 billion per annum.

The public/private imbalance has 2 main implications. The first is the obvious vulnerability to public spending decisions that are largely taken at national government level. The second is that the private sector lacks the critical mass to generate a step change in economic performance in the short to medium term.

NI public expenditure as share of GDP is now 71.3% compared to only 43% in UK and 31% in Ireland.

NI public sector share of employment is 32%.

The annual subvention from the UK is approximately £6Bn.

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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

2. Persistent Wealth Gap.

The second core metric is the existence of a persistent wealth gap between NI and the UK.

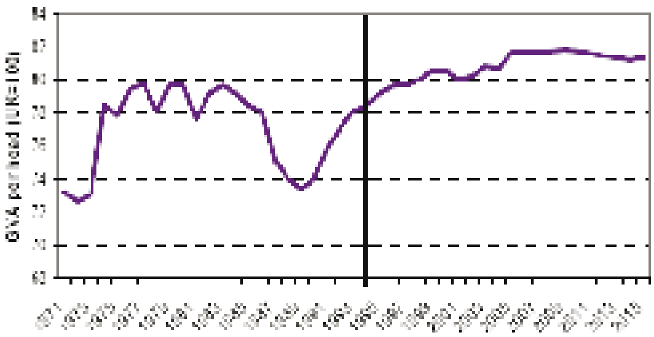
- In 1989 Northern Ireland's GVA per head was 27% lower than the UK average and by 2004 the distance had been reduced to 21% but almost all this catching up took place before 1997.

NI GVA per head 21% lower than UK.

- Although GVA per head has doubled between 1990 and 2003 and the Northern Ireland economy has been characterised by strong labour market growth, little progress has been made on closing the wealth gap with the UK.

Little progress has been made on closing the wealth gap with the UK.

Figure 2 GVA per head in NI UK=100



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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

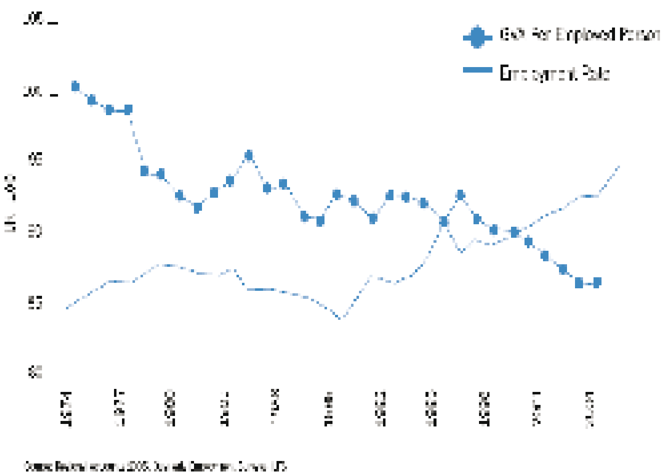
Addressing these critical structural weaknesses will require the following key challenges[1] to be met:-

1. Increase Productivity

- Labour productivity displays a worryingly negative trend. Between 1996 and 2004 it decreased by over 8 percentage points against the UK average – the deepest fall in all UK regions (see Figure 3).

Labour productivity has fallen by 8 percentage points against the UK average.

Figure 3 Productivity (GVA per Employed Person) and Employment Rate in Northern Ireland (UK=100)



- As a consequence Northern Ireland has the lowest job productivity of all the UK regions

NI productivity lowest in UK.

[1] 'Challenges' is preferred to 'impediments'.

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Inter*Trade*Ireland

Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

Figure 4 Gross Value Added per filled job for all industries by UK region (UK=100)

	1998	1999	2000	2001	2002	2003	2004
UK	[illegible]	[illegible]	[illegible]	[illegible]	100.0	[illegible]	[illegible]
North East	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North West	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yorkshire and the Humber	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
East Midlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
West Midlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
East	[illegible]	[illegible]	[illegible]	[illegible]	97.4	[illegible]	[illegible]
London	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South East	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South West	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
England	[illegible]	[illegible]	101.0	[illegible]	[illegible]	[illegible]	[illegible]
Wales	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Scotland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Northern Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Ultimately productivity can be boosted by increasing capital investment and growth in the labour force and by other factors which effect total factor productivity such as advances in technology, business organisation, redistribution of resources from low productivity sectors to high productivity sectors and institutional and political stability.

The following challenges to which I will refer are all related to the achievement of higher productivity. Most have been identified by the Ecomonic Development Forum and others, and are the object of DETI's Economic Vision for Northern Ireland which identifies innovation, entrepreneurship, skills and infrastructure as the key drivers of future economic competitiveness and wealth.

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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

2. Increase Economic Activity

- There are currently 289,000 economically inactive people of working age in Northern Ireland and this equates to 27.4% of the working age population. The Northern Ireland rate is currently six percentage points above the UK average (21.4%) and this scenario has been a consistent feature of the Northern Ireland and UK labour markets over time

NI economic inactivity is highest of any region in UK.

3. Increase Entrepreneurship

NI 9th out of 12 UK regions for entrepreneurship.

- According to the 2004 Global Entrepreneurship Monitor, Northern Ireland ranks 9th out of the 12 UK regions in terms of entrepreneurial activity.

NI entrepreneurship half that of the US.

- Northern Ireland's Total Entrepreneurial Activity (TEA) is less than half of the United States.

NI has very low female entrepreneurship.

- Women in Northern Ireland have one of the lowest levels of participation in entrepreneurial activity (2.3%) than is evident in other developed countries/regions.

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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

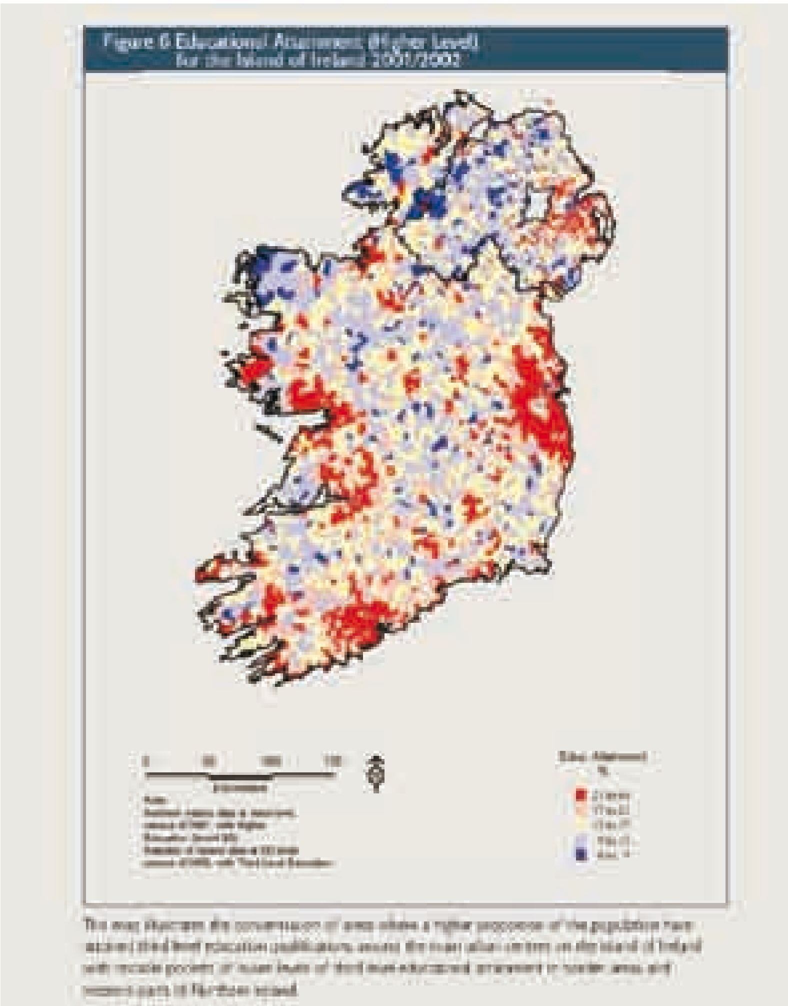
4. Increase Skills

- Almost one quarter of Northern Ireland’ s working age population have no qualification, which compares unfavourably with both Ireland (17.5%) and the UK (13.4%).

24% NI working population have no qualifications.

- The poor higher level educational attainment is mapped in Figure 6. Notice the concentrated effects along the border and in the west of Northern Ireland.

Higher level educational achievement is a particular problem in border areas especially to the west.

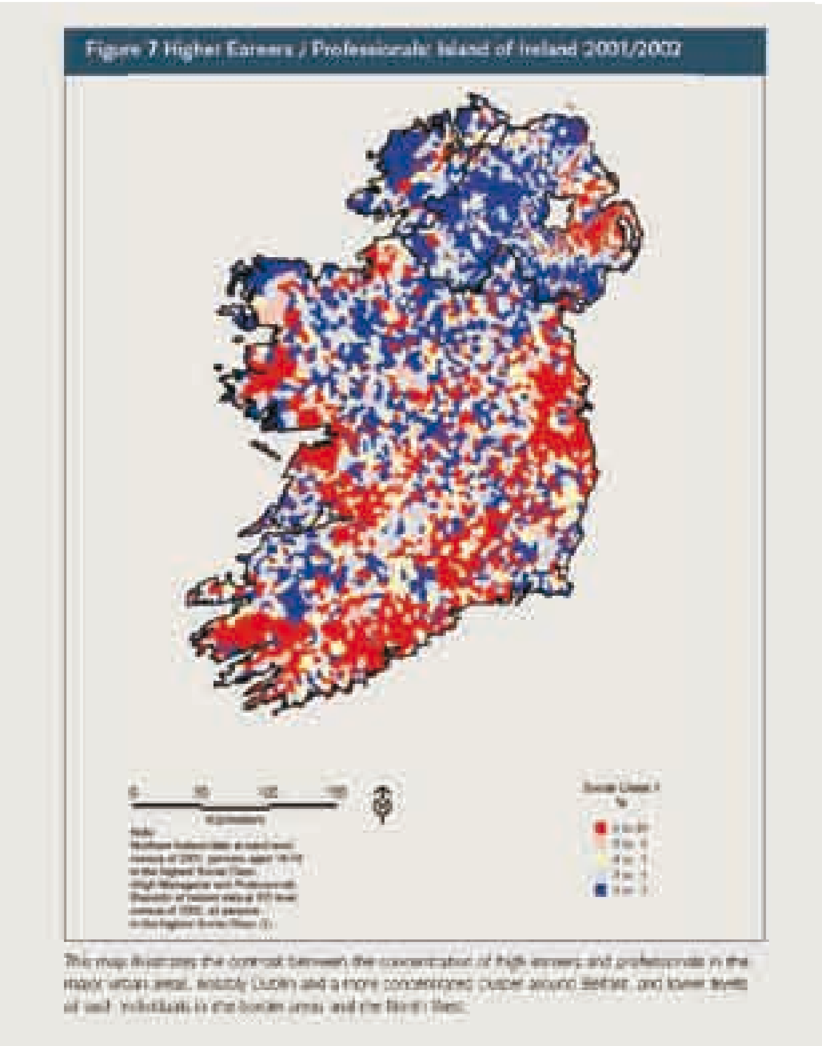


July 2006 #P1 Page 8

Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

- Figure 7 shows the clear relationship between poor skills attainment and average earnings. Again the concentration of economic activity in the greater Belfast area is visible.

Low educational achievement is reflected in lower earnings..



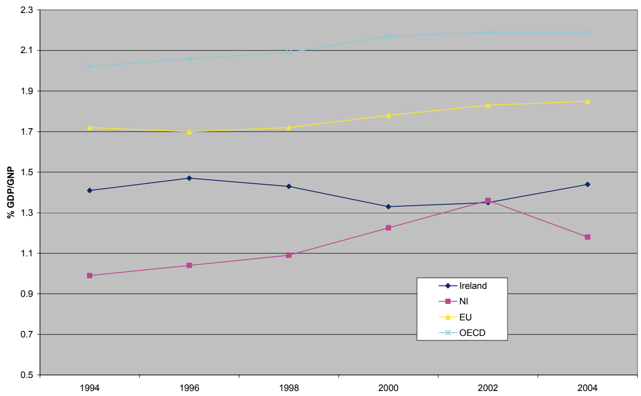
Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

5. Increase R&D.

- In 2003 Northern Ireland's general expenditure on research and development (GERD) amounted to £262m representing 1.19% of Gross Value Added (GVA) which compared unfavourably with the EU and UK averages at 1.93% and 1.86% respectively.

NI total R&D expenditure continues to lag UK and European regions.

Figure 8 Total R&D Spending in Ireland, Northern Ireland, OECD and EU25 (% of GDP/GNP).



Notes and Sources: Ireland, OECD and EU25: Research and Development in Ireland 2005 – At A Glance, Forfás. Northern Ireland, DETI R&D reports. GNP is used for Ireland instead of GDP as the latter is inflated by the transfer pricing policies of large multinationals.

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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

How cross border/all-island collaboration can contribute to economic regeneration.

As the pace and intensity of global competitiveness increases, the search for sources of competitive advantage becomes even more complex and rigorous. It has been increasingly recognised that a nation's competitiveness and economic growth can be enhanced by coordinating economic policy with neighbouring countries. Recent studies emphasise economic cooperation as an important tool to enhance competitiveness for the benefit of cooperating regions.

Greater economic cooperation between regions can:-

- create gains in trade and investment (and it is encouraging to note that cross-border trade is up by 5.5% in 2005),
- generate economies of scale through administrative pooling of resources to deliver more efficient and effective public services most notably in the area of infrastructure,
- promote wider economic benefits of knowledge transfer via networks and clusters (agglomeration economies), and
- reduce market failures through lack of information.

A further important effect of enhanced cooperation between North and South should be through a larger domestic market or "Market widening effect". So called "information asymmetries" give rise to close and repeated "customer" connections that become embedded within sovereign jurisdictions. Research from Inter*Trade*Ireland has shown that companies North and South, through lack of information, tend not to look to the other jurisdiction for business opportunities. In a more open market environment, certain industries will flourish as previously unexplored business opportunities are exploited. Companies may be encouraged to redesign logistical strategies and treat Ireland as one commercial zone rather than two separate entities. New logistical policies may involve companies changing suppliers, improving the operation of sub-contracting networks, reorganising distribution networks or even moving to a new location. All these changes are likely to have competitiveness boosting effects. The "market widening" effect could be particularly beneficial to the North given its relatively high dependence on the public sector and could aid the development of a large and more dynamic private sector economy.

Indeed a key element of what InterTradeIreland does is to create

Enhanced co-operation can also achieve a larger domestic market.

…opening up new business opportunities.

this island.

…and helping to create a larger and more dynamic private sector – the key to generating a step change in economic performance..

July 2006 #P1 Page

Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

InterTradeIreland has 19 all-island business networks.

We now support a portfolio of 19 all-island business networks – some of them are sector-specific (such as those in biotechnology and computer software and polymer and plastics), some are geographic (such as the North-West Science & Technology Partnership), some are based on Communities of Interest (such as micro-enterprise, universities, public procurement and infrastructure), and some are based on areas of excellence (such as benchmarking, equity finance, and supply chain management).

In the key areas of Science, Technology & Innovation, Sales & Marketing and Business Capability Improvement InterTradeIreland is delivering initiatives that expand opportunities available to local companies:-

- In the area of STI for instance we are providing for example the FUSION Technlogy Transfer programmes, the INNOVA Collaborative R&D programme, and the **expertiseireland** all-island research portal.
- In the area of Sales & Marketing we are providing for example the ACUMEN and Network & Getwork programmes.
- In the area of Business Capability Improvement we are providing for example the All Island Best Practice Forum, Logistics XP (a Supply Chain initiative), Go Tender (a public procurement initiatice) and MicroTrade (a micro-enterprise support programme).

We know that our range of programmes and projects works for the business community. The acid test is demand, and demand for our programmes and projects is growing.

We now have companies from every County in Ireland represented in our portfolio of programmes.

More than £50M of direct trade and business development value created 2003-2005.

In the period from 2003 to 2005 InterTradeIreland has helped more than 9500 companies to develop their capabilities to do business on an all-island basis, and more than £50M worth of trade and business development value has been generated by those through companies directly participating in our programmes.

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Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

Two short examples can servce to bring these figures to life

The first from our All Island Technology Transfer Programme FUSION:

Creative Composites, Lisburn - Fusion

Creative Composites Ltd designs and manufactures high quality composite products for use in packaging applications. The work carried out in the FUSION project will be used to improve part quality and reduce cost per part through elimination of costly manual painting and rework of parts. This will allow improved through put in the factory to cater for the larger number of parts being produced with the start of production for their new NMHG 1-8T project. The introduction of new technologies into the company will also allow it to tender for new business previously unavailable due to the lack of the required technology.

Contracts worth £1.75M, investment of £500k in new equipment and efficiency savings of 60K per annum

Academic Partner – University of Limerick

The second from our All Island Sales & Marketing Programme ACUMEN.

Cordiners Kitchens, Bangor - Acumen

Cordiners manufacture top end kitchens and bedroom furniture. They were one of Acumen's first clients and they focused their efforts on the Munster region. They engaged a Cork based Prospector who returned well above expected sales levels. The company employ 42 people.

Sales yield: £600k pa

Inter*Trade*Ireland statement to the Economic Challenges Sub-Group of the Preparation for Government Committee (Northern Ireland Assembly).

Conclusion.

All-island collaboration is a potentially lucrative source of competitive advantage for Northern Ireland as it strives to address the key structural impediments that are constraining its economic growth potential. All-island collaboration offers opportunities for the private sector to become more competitive, provides the public sector with opportunities for more efficient and effective delivery of services and should be an integral part of any future economic development strategy for Northern Ireland.

The following areas, in our view, offer the most scope for mutually beneficial collaborative action; Science, Technology & Innovation, Labour Market Skills, Infrastructure, and All Island Business Networks.

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Strategic Investment Board

Presentation on Infrastructure Investment to Sub Group on Economic Challenges Facing Northern Ireland

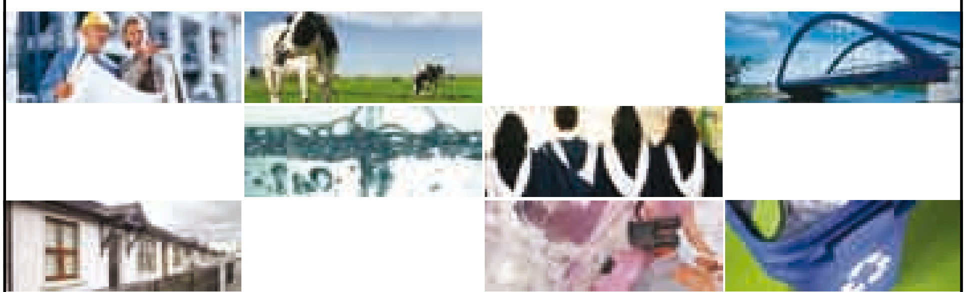
DAVID GAVAGHAN

27 July 2006

www.sibni.org SIB

Context

FIT FOR THE 21st CENTURY?



www.sibni.org SIB


Strategic Investment Board Limited - Remit
▪ Investment Strategy for N.I.
▪ Projects & programmes
▪ Foster reform
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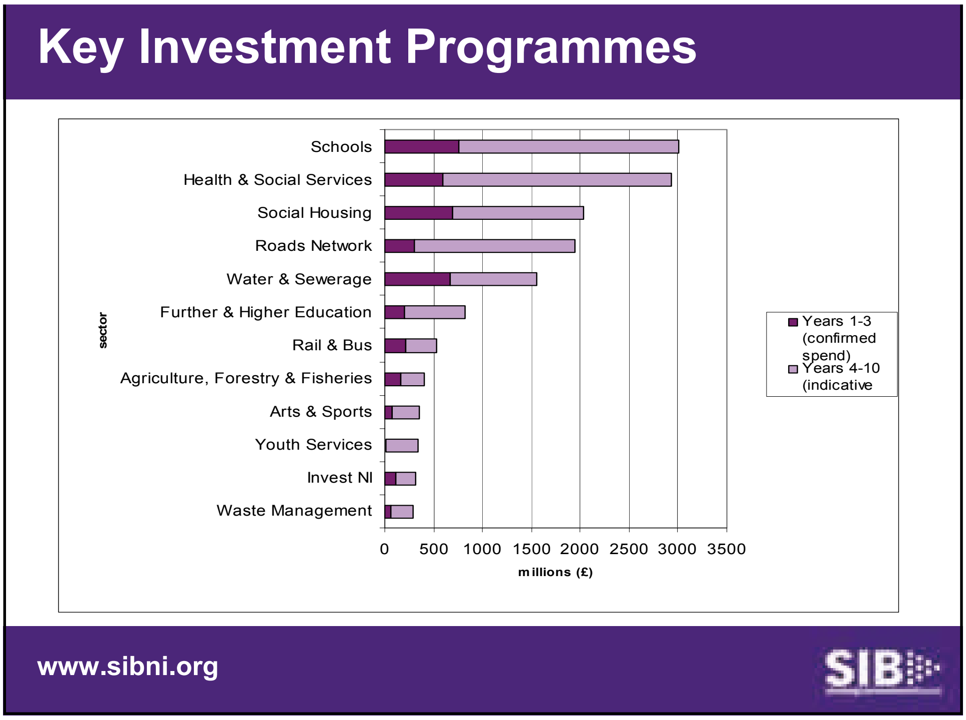
SIB


Investment Strategy for Northern Ireland
▪ 10 Year Horizon
▪ Potential £16bn/ €24bn
▪ Scale and ambition
www.sibni.org
SIB


Key Investment Programmes
Schools
Health & Social Services
Social Housing
Roads Network
Water & Sewerage
Further & Higher Education
Rail & Bus
Agriculture, Forestry & Fisheries
Arts & Sports
Youth Services
Invest NI
Waste Management
sector
0 500 1000 1500 2000 2500 3000 3500
millions (£)
Years 1-3 (confirmed spend)
Years 4-10 (indicative
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SIB


Sustainable Competitiveness
Sustainable Enterprises
Competitive Advantages
Expertise in Markets
Expertise in Technology-Product & Service Development
World-class Skills, Education & Training
An Attractive Taxation Regime
Effective, Agile Government
Essential Conditions
Cost Competitiveness
Physical & Communications Infrastructure
Innovation & Entrepreneurship
Management Capability
Source: Ahead of the Curve – Ireland's place in the Global Economy
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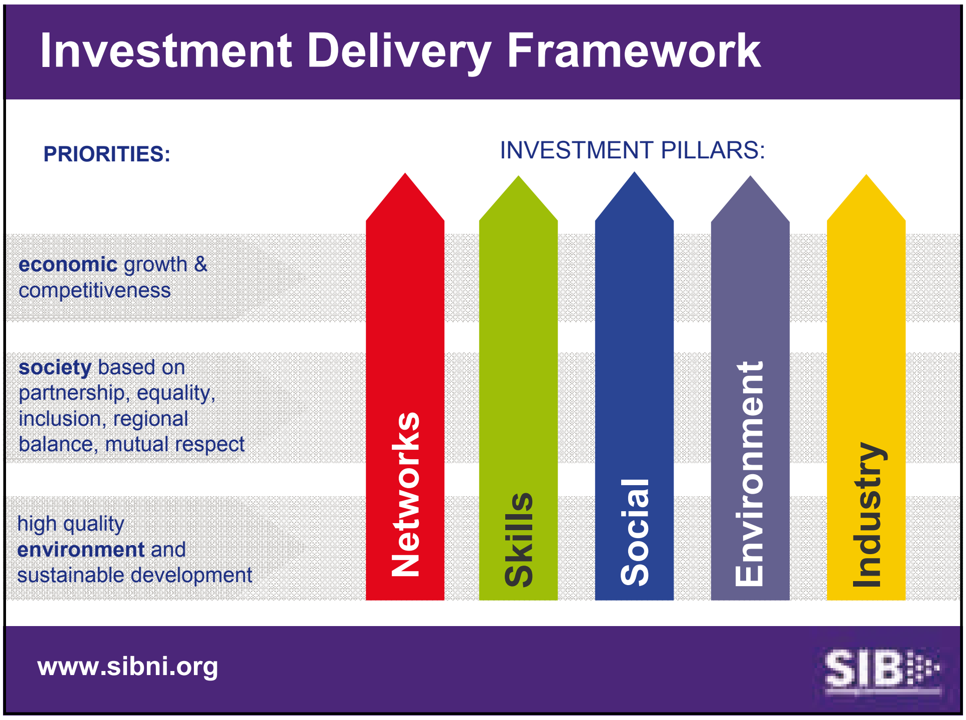
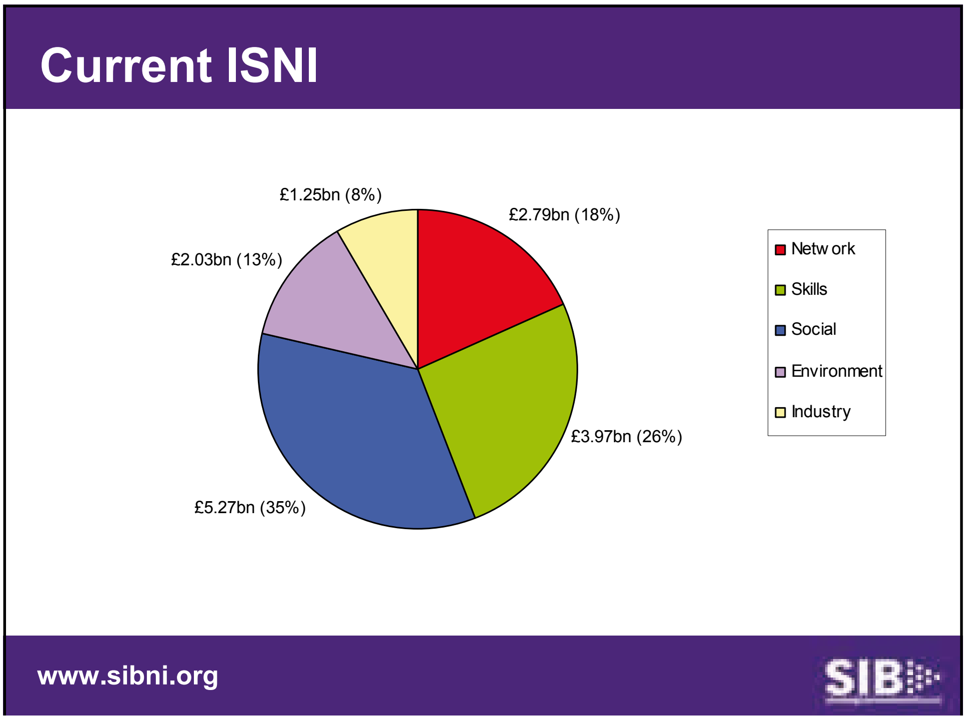
SIB


Investment Delivery Framework
PRIORITIES:
INVESTMENT PILLARS:
economic growth & competitiveness
society based on partnership, equality, inclusion, regional balance, mutual respect
high quality environment and sustainable development
Networks
Skills
Social
Environment
Industry
www.sibni.org
SIB


Current ISNI
£1.25bn (8%)
£2.79bn (18%)
£2.03bn (13%)
£3.97bn (26%)
£5.27bn (35%)
Network
Skills
Social
Environment
Industry
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SIB

SIB Supported Projects…closed

Project	Value	Sector	Department	Contract Close
INVEST NI HQ	£30m	Accom	Invest NI	QTR 3 2004
LISBURN CITY LIBRARY	£7m	Education	DEL	QTR 3 2004
ALTNAGELVIN PHARM. & LABS.	£25m	Healthcare	DHSSPS	QTR 1 2005
ROADS PACKAGE 1	£100m	Roads	DRD	QTR 4 2005
RGH MANAGED SERVICES	£30m	Health	DHSSPS	QTR 4 5005
ALPHA DRINKING WATER	£111m	Environment	DRD	QTR 1 2006
eHR	£37m	ICT	DFP	QTR 1 2006

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SIB

Events this year

- **Closed Roads Package 1 £100m**
  - **First Bond Financing of Public Sector Asset**
  - **First EIB Funding in N.I.**
  - **Equity participation by local contractors**
  - **Very fine pricing- has put NI on the map**
- **Closed Project Alpha**
  - **Now the largest single infrastructure project in N.I.**
  - **25% savings on original estimate in June 2004**
- **e- HR- UK (and beyond) pathfinder project**

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SIB

Events this year

- Significant further progress across a broad front
- Engagement with the supplier market / industry capacity
- Public sector capacity study underway

- All-Island Infrastructure Investment Conference (Dundalk, Feb)
- PPP Forum (Waterfront Hall, June)
- City of Derry Roundtable (Sept 2005)
- Presented at 30 NI & 5 international events

- Increased SIB staff complement to 27 from 17, inc. 5 senior people from NI

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Right now…

- Commenced shaping ISNI 2
- Belfast Schools ITN return 26/5
- 48 new schools launched last month
- Roads Package 2 ITN returned- BAFO Sept 06
- Project Omega waste water- on schedule for FC Jan 07
- Workplace 2010 – ITN issued; 4 good consortia
- Launch of Acute Hospital Programme - £1bn 06/07
- Titanic Quarter including Signature Project
- Maze Masterplan including stadium underway

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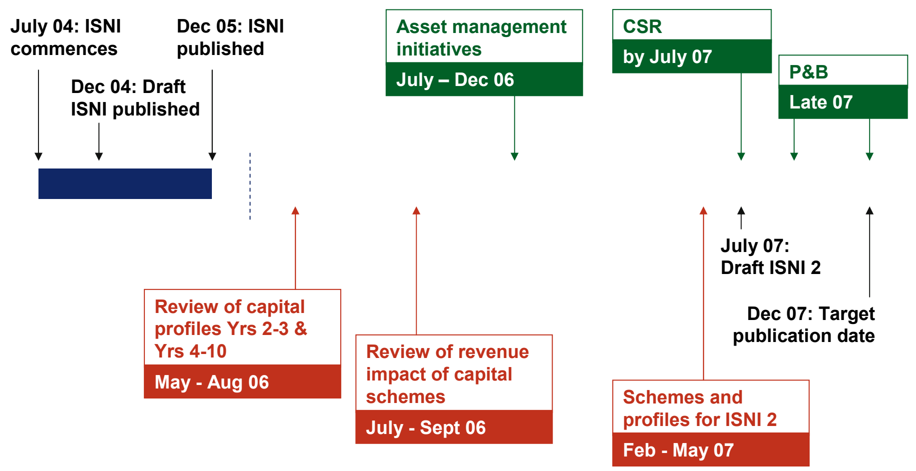
ISNI 2 development timeline



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Where PPPs work/ don't work

WORK

- Better track record of delivery on time & to budget
- "Teachers teach"
- Robust project appraisal – User needs, WLCs
- Risks managed by appropriate parties
- Penalties for poor service performance
- Transparency - pay for what you get

DON'T WORK

- Small projects
- Needs uncertain / changing
- Client lacks expertise to engage
- Where conventional funding offers better VFM
- Poor risk transfer – e.g. refurbishment

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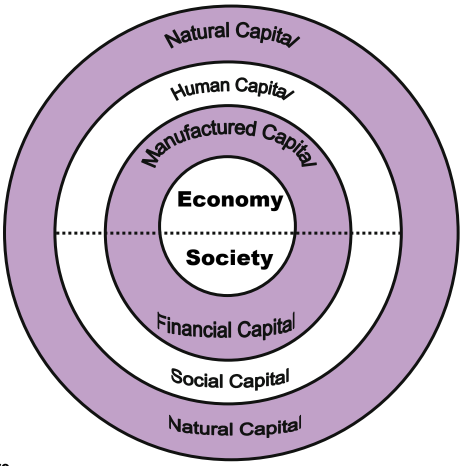
5C Framework - sustainability



Source: Forum for the Future

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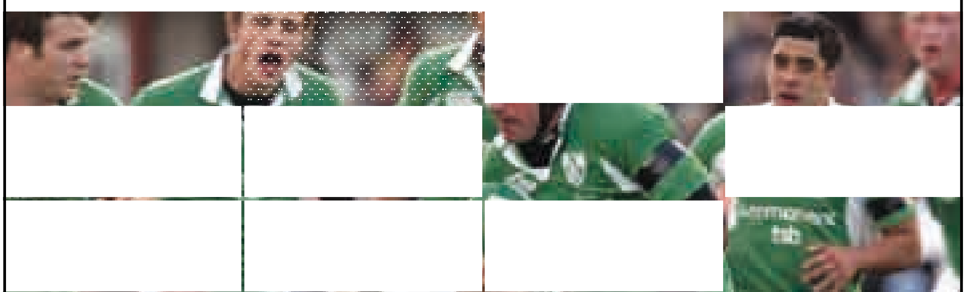
Challenges

- Capacity & Capability – Public/Private
- Stakeholder confidence - Banking successes
- Regional Disparity and Social Cohesion
- Urban Regeneration – a new model required
- All-Island aspects – Population Growth 8m 2050?



www.sibni.org


Delivering a Better Future
www.sibni.org

Invest Northern Ireland

Major Impediments to the Development of the NI Economy

- Small size of domestic market, consequent need for business to grow by external sales
- Preponderance of micro businesses, many of which lack the skills and resources to develop externally
- Low levels of innovation (new product and services development)
- Low value-added, ie not enough highly productive/very profitable businesses to counter our medium/high cost structure

Major Impediments to the Development of the NI Economy

- Very high levels of economic inactivity - a waste of human resource at a time of tight labour market
- Cultural hurdles in a small insular area bruised by years of strife (leading to lack of optimism and fear of failure)
- Skills shortages - need for better continuous education and retraining facilities/courses
- Transportation (roads) infrastructure falls short
- Planning remains cumbersome
- Political tone is dispiriting domestically and, at best, neutral overseas

Fiscal Incentives that may promote FDI and indigenous investment

- A lower rate of corporation tax would attract more, and more profitable, FDI
  - Would also encourage local business formation and growth by increasing the return on capital
  - Would change NI's sectoral mix for the better but not necessarily its innovativeness
- Enhanced Tax Credits for R&D (and other aspects of business expenditure) would be helpful but unlikely to bring transformational change in value-added
  - Would supplement the innovation tool-kit, which should include grants and the provision of expertise

How an economic package/peace dividend could contribute to economic regeneration

- Excluding potential infrastructure expenditures, a "Peace Dividend" could be directed towards the following areas:
  - Increase in Invest NI programme budget for use in innovation and entrepreneurship programmes & for sunrise-sector initiatives
  - Increase in funding for vocational retraining principally through FE Colleges and universities
  - Increase in funding for university research & knowledge transfer in areas with economic potential
  - Enhanced financial measures (such as Return to Work Credit) to tackle long-term unemployment or economic inactivity

John Simpson

Northern Ireland Assembly
Sub-group on the economic challenges facing Northern Ireland

Presentation summary

John Simpson

[1 August 2006]

1. **A personal introduction:**

44 years with continuing interest in the regional economy

- as temporary civil servant, aka Wilson and Matthew plans
- academic at QUB working on regional economics, until early retirement
- consultant on sectoral issues [construction, poultry, labour relations]
- chair, arbitration and negotiation on employment topics
- nominee on European Economic and Social Committee
- visiting Professor, School of Marketing, Entrepreneurship and Strategy, UU
- joint chair, Task Forces on West Belfast and Greater Shankill regeneration

2. **Where the regional economy is now: setting the scene**

- judged by employment and average living standards: best in living memory
- judged relative to UK regions and R.of Ireland: lagging behind most (except North-East)
- unemployment, lowest in living memory
- underemployment = inactivity rates: comparatively high [partly a rural issue]
- migration: reversal of past trends of net emigration
- GDP p.head, or GVA p.head, just over 80% of UK average and possibly 74% of R.of Ireland average

3. Major impediments

First: a cautionary note Beware of any dramatic single solution to all impediments (taken as an advance on promises of future repayments)

Conventional theses: each with partial explanation BUT each tends to be overstated

- peripheral location, poor natural resources, extra transport costs, small local market place on an island divided into two economies
- loss of manufacturing industry. Output up; jobs down; improved O.p.p
- weak private sector
- over large public sector
- impact of large public sector, particularly in labour market
- a ‘branch plant economy’ which impacts adversely on scope for innovation, R&D, applied research and types of investment

Less conventional theses: each tends to understatement

- impact of political instability, has not gone away: ‘an unsustainable economy’: comparison with Cyprus or Basque area, and Catalonia
- failures in delivery through public sector administration, with particular reference to (but not exclusively) town and country planning, infrastructure plans and delivery (electricity, fresh water, waste water, roads, transport), education and training scale and standards, urban regeneration
- failures in administration of public services, including issues in RPA and also with respect to the efficiency of public services
- emphasis on ‘Vision statements’; not enough on operational delivery
- lack of real debate about options and delivery, with sanctions rather than apologetic explanations: role of EDF
- attraction of more businesses in low value-added activities, because that is a relative strength for this region

4. Fiscal incentives

- all, or any, extra fiscal incentives would be welcome by businesses affected
- north-south comparison is well known: company taxation and excise duties
- search for NI variations has long history: Hall Report 1962, later Kilbrandon
- current topics in debate: corporation tax, industrial derating, comparative level of domestic rates, comparative charges for water services
- view of HM Treasury is clear, implicitly if not explicitly

What fiscal assumptions are necessary? Any regional discretion is inevitably constrained. The options might draw on one or more of the following.

- parity of public services means parity of contribution, or tax, on comparable incomes [Treasury starting point]
- divergence from parity of taxation means similar divergence in public spending: lower impost offset by lower spend on some aspect of services [principle implicit to Scottish Executive discretion, approved by legislation]
- one off, time limited exception to parity of taxation, for all relevant taxpayers with main beneficiaries being existing businesses or households; may have a large 'dead-weight' effect [likely to be scrutinised by European Competition authorities]
- one off, time limited exception to parity, for all 'new' businesses [difficult to administer without distortion claims]
- alternative fiscal variations with the effect of lowering the fiscal impact in favour of NI investments: tax deductible expenses to include a multiple of marketing, training, research and development, or other unique development expenditure
- an international agreement for an all-island fiscal unit, with company and excise taxes being harmonised but with the expectation that the UK Treasury would then demand to reformulate the Barnet formula to reduce (pro rata) the allowed level of public sector subventions to Northern Ireland. If accepted, this would make the Irish Sea (and the North Channel) into a fiscal frontier.

5. **Other measures to contribute to economic regeneration**

- there is much that lies within local capacity that can be improved
- the Reinvestment and Reform Initiative has defined the scope for a stronger investment programme provided that the Strategic Investment Board is well lead
- a peace dividend should add to the progress but should not be used as a substitute for improved local performance or to disguise local inadequacies or deficiencies

Possible foci

- new institutional arrangements for major regeneration plans in the city-regions of Belfast and Derry City lead by strong development corporations
- extra provision for enhanced levels of skills, vocational training and higher advanced qualification providing for several thousand more young people each year
- enhanced provision, with significant budgets, for improved primary and secondary education in the areas where new TSN shows the impact of deprivation
- extra communications investment, particularly in roads, to meet the commercially determined standards set by business organisations and to match provision on cross-border routes
- a new approach to the integration of rural and urban needs to give a new momentum to rural living, protect the environment and countryside, integrate urban and rural responses

- stronger incentives to innovation, R&D, marketing

6. Conclusions

- there are major economic challenges
- many of these challenges can be met by harnessing local talent, ambition and efficiency
- the case for fiscal incentives can only be sustained if the whole range of impediments is tackled constructively and expeditiously: beware single options
- there is no intrinsic reason why Northern Ireland should lag behind other regions in providing a better, sustainable, life style for its citizens and build away from a perception of a dependency culture

jvs
1.8.07

Department of Enterprise Trade and Investment

Assembly Sub-Group on Economic Challenges

Department of Enterprise, Trade and Investment

1 August 2006

Terms of Reference

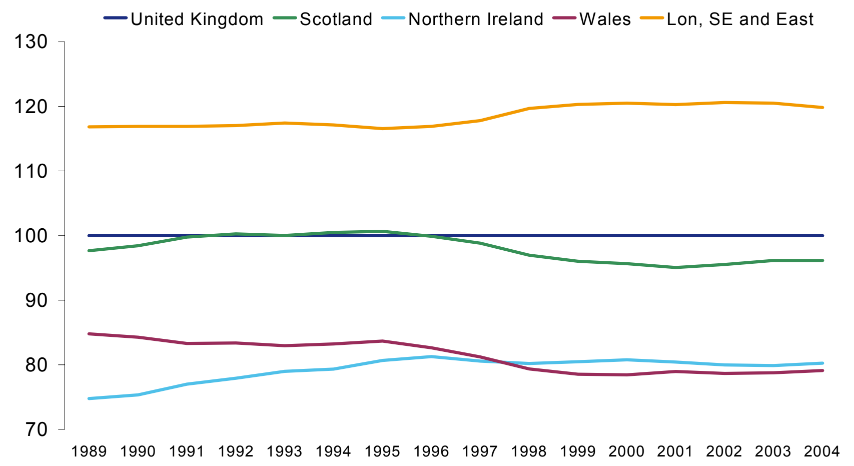
1. Identify the major impediments to the development of the Northern Ireland economy;
2. Consider fiscal incentives to promote FDI and indigenous investment;
3. Consider how an economic package / peace dividend could contribute to economic regeneration and how this might be delivered.

Northern Ireland Economy (Overview)

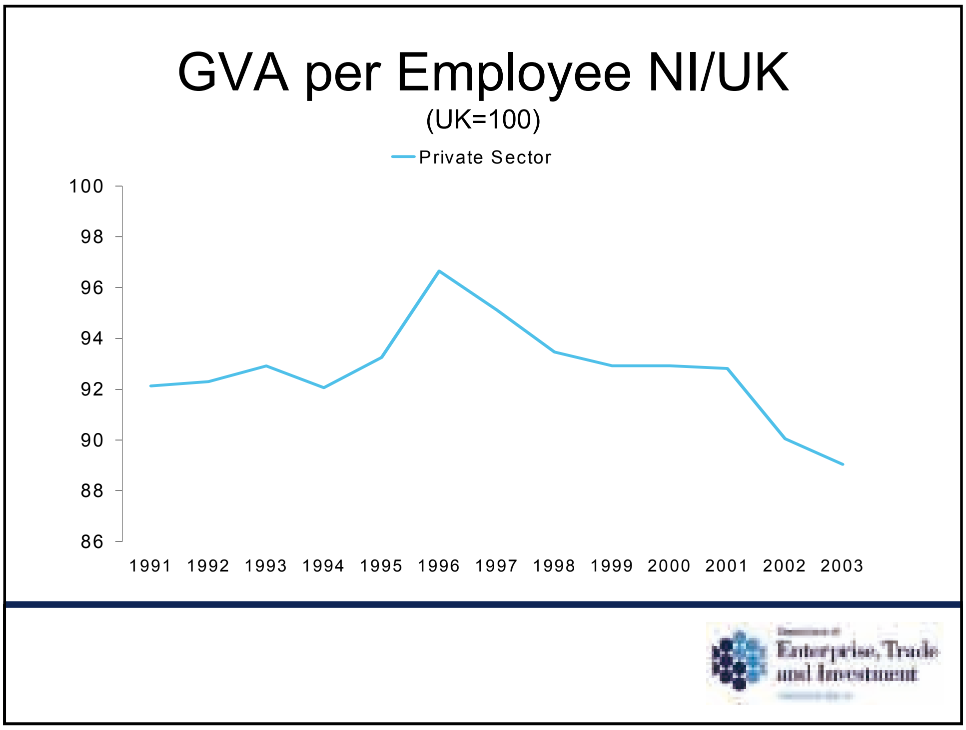
NI Economy - Positive Developments

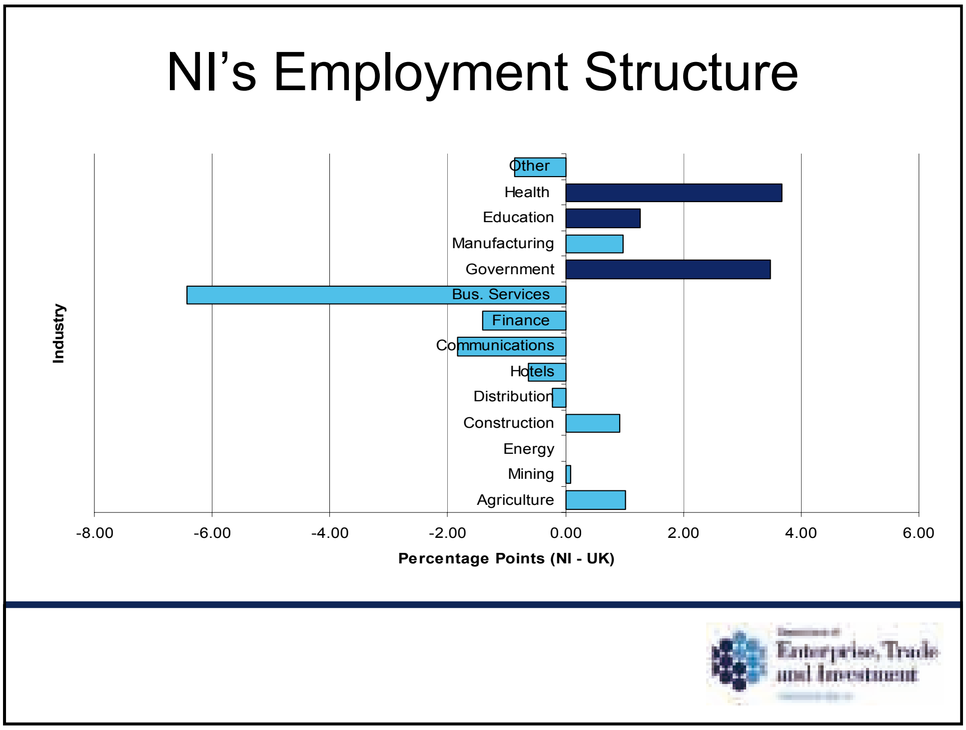
	NI	UK
GVA Growth 2004	5.0%	4.6%
Private Services GVA Growth 1998-2003	42.8%	39.2%
Employment Growth 1996-2006	15.7%	11.2%
Unemployment Rate 2006	4.5%	5.4%
Manufacturing Output Growth 1996-2006	35.6%	3.1%

GVA Per Capita (UK=100)

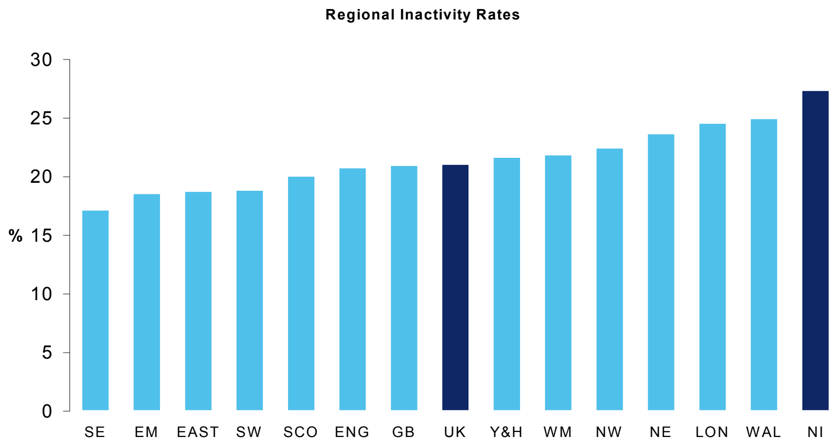


Impediments to the NI Economy


GVA per Employee NI/UK
(UK=100)
Private Sector
100
98
96
94
92
90
88
86
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003
Enterprise, Trade and Investment


NI's Employment Structure
Industry
Other
Health
Education
Manufacturing
Government
Bus. Services
Finance
Communications
Hotels
Distribution
Construction
Energy
Mining
Agriculture
-8.00 -6.00 -4.00 -2.00 0.00 2.00 4.00 6.00
Percentage Points (NI - UK)
Enterprise, Trade and Investment

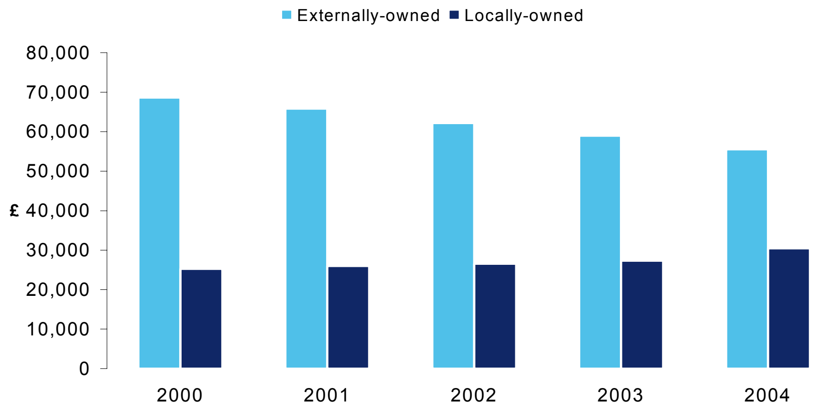
Economic Inactivity



FDI and Indigenous Investment

FDI – Performance & Research

GVA per head in locally and externally-owned Invest NI client companies



Fiscal Incentives

- Northern Ireland is part of the UK tax and public expenditure system and taxation is an excepted matter and the responsibility of HM Treasury.
- The UK already enjoys a low tax rate on the profits of SMEs (19%)
- Low corporation taxes were an important element of RoI economic growth (particularly in US FDI), however other factors include:
  - Ready supply of skilled workers;
  - Lower proportion of pensioners and high levels of immigration;
  - An increase in the labour force participation.
- Forfas has noted that foreign-owned enterprises rank appropriate skill levels as the RoI's most important advantage, followed by the favourable corporation tax rate and then by the English-language environment.
- Other fiscal measures: R&D Tax Credits

Economic Package / Peace Dividend

Economic Packages (1)

- Aware of Business Alliance and Industrial Taskforce views on the economic package:
  - Harmonisation of Corporation Tax Rates
  - Proposals relating to University Research, Science and Technology Transfer
  - Proposals relating to education and skills
- Northern Ireland has benefited from significant PE growth in recent years
- PE needs to continue to boost output rather than income to ensure greater sustainability.
- Through ISNI, up to £16bn will be invested to address Northern Ireland's infrastructure deficit over the period to 2015
- Through the CSR, DETI would wish to see PE allocations to support greater investment in the supply-side drivers of R&D / innovation, skills (including management), enterprise / business growth and modern infrastructure as identified in the Economic Vision

Economic Packages (2)

- The pace of globalisation means that NI needs to be increasingly connected. DETI will continue to do this through:
  - Promoting high quality, high value-added business investment;
  - Telecommunications;
  - Energy – Continue to address high energy costs via inter-connectors with the UK and RoI and reducing demand via renewable energy;
  - Tourism – Investment in signature projects and golfing strategy etc;
  - Air Services – With a service dominated economy, the transfer of people / knowledge - rather than products - needs to be facilitated;

Department of Enterprise, Trade and Investment

Enterprise Northern Ireland

Northern Ireland Assembly
Sub-Group on Economic Challenges

1 August 2006

Enterprise Northern Ireland is a leading economic development organisation focusing on entrepreneurship, business start and business development across all sectors. Enterprise Northern Ireland, as the umbrella organisation, acts as the lobby and policy voice of the agencies and on behalf of small business generally to develop initiatives that make Northern Ireland more enterprising and innovative.

Enterprise NI, the Association – Objectives

In order to achieve this vision, Enterprise Northern Ireland has the following objectives:

i. To ensure that Enterprise Northern Ireland is a cohesive organisation with members achieving the organisation's vision.

ii. To deliver a high quality service to members, sponsors and programme beneficiaries through ongoing evaluation, monitoring and continuous improvement.

iii. To secure the long term sustainability of the service provided at local level through understanding the needs of small businesses, influencing policy, positioning and communication.

Enterprise Northern Ireland, the Members – Objectives

In order to achieve this vision Enterprise Northern Ireland has the following objectives:

i. To increase the business birth rate.

ii. To sustain and develop existing local businesses.

Content of Evidence

We welcome this opportunity to contribute to the work of the Sub-Group on Economic Challenges facing Northern Ireland.

Our network consists of 32 independent local enterprise agencies and 330 voluntary directors working together as a network to provide practical business support in 40 towns and villages throughout Northern Ireland.

We have 200 staff. All the business advisory staff are independently professionally accredited.

Enterprise Northern Ireland is the main mechanism for support to local businesses throughout Northern Ireland. We work closely with Invest NI – but with an independent view and a specific focus on small business.

Not only do we have a representative role, we also operate a range of programmes which include:

- Start a Business Programme
- Tradelinks & MicroTrade
- Enterprise NI Loan Fund
- Social Entrepreneurship Programme
- Enterprise Network Europe/Tradebridge

Start a Business Programme

8520 businesses have been established over a four year period, compared to a target of 6270.

36,251 individuals participated in at least some element of the Programme with 70% completing the training.

Even after taking account of deadweight (those businesses which would have started in any case), the impacts of the Programme are substantial:

- 1385 to 2194 additional business starts
- 1286 to 2037 additional jobs
- Additional turnover of between £71 million and £113 million. Average turnover of supported businesses is almost £60k per annum.

Recent Independent Review of Start a Business Programme

- SABP is highly valued by the vast majority of participants.
- There should be an ongoing commitment to volume start up support, consistent with Government policy and the research evidence.
- The Programme's focus should be sharpened to minimise deadweight and improve value for money.
- The Programme should also be made more flexible with a common core provision and additional resources offered on a menu basis to those who –
  - are disadvantaged and underrepresented, perhaps by more intensive pre-start support and,
  - offer the greatest growth potential
- Cost per participant is £1055 (including grant)

Enterprise Northern Ireland view

Enterprise Northern Ireland agrees that inward investment and support to technology based business is important. However we believe that achieving inward investment and technology based business targets are challenging and do not provide a solution for peripheral areas and disadvantaged communities.

Enterprise NI is also concerned that Invest NI does not have statutory responsibility for locally focussed businesses and in the environment of budgets cuts it seems natural that this area would be given reduced priority. In the Republic of Ireland, City & County Enterprise Boards have statutory responsibility and a core delivery budget for support of micro enterprises.

At present Invest NI appears to commit only 6% of its budget to local enterprise support; Scottish Enterprise commits over 12% of its budget to this area.

Local Businesses

- Provide employment, incomes and opportunities in towns and villages and in rural areas across Northern Ireland.
- Provide the only opportunities for employment and income growth where inward investment is not an option (Invest NI policy is to steer investment to Londonderry and Belfast).
- Stimulate competition and innovation.
- Provide enhanced services to local population, and
- Provide accessible employment.

Government Policy as articulated by the Chancellor, Gordon Brown and by Invest NI:

Gordon Brown says…'anyone with the talent, potential and drive to succeed in business should have the opportunity and necessary support to do so, regardless of their background or where they live.'

Invest NI says…'It is widely recognised that entrepreneurial activity is a policy priority for all modern economies because new businesses

- Are a source of innovation and new ideas.
- Create wealth and employment.
- Increase competition.
- Allow people from all backgrounds to realise their potential.'

However, the Northern Ireland reality is:

- Given the lack of statutory responsibility it is inevitable that low priority willl be given to support to local businesses
  - Reduced share of Invest NI expenditure.
  - Start/stop approach to the Accelerating Entrepreneurship Strategy's Go For It Campaign

- Northern Ireland business start up rate is only 62% of the UK average, per head of population. (although it is improving)
- Little support for business development once the start up phase has been completed.
- Little support for enterprise awareness and capacity building in TSN & more recently Neighbourhood Renewal areas.

▪ This is an area of major opportunity for Northern Ireland which is not being addressed adequately in the current policy.

Social Economy

A similar scenario exists in terms of support to social entrepreneurs. Whilst considerable efforts have been made to source a budget for SEP support, the flagship Social Entrepreneurship Programme is much reduced.

Enterprise Northern Ireland Recommends

▪ An enhanced and focused entrepreneurship strategy for Northern Ireland which builds on the existing strategy but is cross departmental in budget and focus with the objectives of

- changing attitudes and culture
- encouraging more people to take the first steps in business, and
- offering appropriate support for further business development and growth.

▪ Based on best practice support principles as seen in Scotland and in the Republic of Ireland

- Statutory basis
- Clear policy framework and accountability
- Consistent, long-term approach with adequate budgets
- Common core provision combined with flexibility to meet the requirements of individual customers

The Review of Public Administration

▪ Under RPA responsibility for business support to most businesses will transfer to Councils.

▪ This is an opportunity to rebalance the business support structure in favour of local businesses.

▪ But there are also potential threats

- Loss of continuity of support in run up to RPA.
- Lack of consistency in delivery of the new arrangements post RPA.
-

Enterprise Northern Ireland Recommends

- DETI to put in place a new policy framework for entrepreneurship
  - To be implemented by Councils in partnership with Enterprise NI and the LEAs.
  - Within a framework of accountability to the Assembly.
  - Common core provision across Northern Ireland.
  - Councils adding elements to reflect local needs and opportunities.
  - Reflecting best practice in Scotland and the Republic

Conclusions – Related to Your Terms of Reference

1. **To identify the major impediments to the development of the economy in Northern Ireland.**

- a major impediment is the lack of a strong, comprehensive and consistently applied strategy for entrepreneurship and local business support and development across Northern Ireland.
- in particular, we need to see the development of measures to stimulate pull-through, that is, the encouragement of small businesses to take the next steps to become bigger businesses commanding the support of Invest NI.

2. **To consider fiscal incentives that may promote foreign direct investment and indigenous investment.**

- Entrepreneurship and local business support needs both direct government expenditure and a supportive fiscal environment.
- 100% Capital Allowances were previously introduced for Northern Ireland alone and allow local businesses to invest in new technology for competitive advantage.

3. **To consider how other matters, including an economic package/peace dividend, could contribute to economic regeneration and how this might be delivered.**

- The package could provide the support mechanism for business start up and development and the fiscal incentives to close the gap between Northern Ireland and UK average business start up rates.
- An initial step for the package would be to study the best features of business start up and development support in Scotland and the Republic and identify how they could be applied in Northern Ireland.
- A more supportive planning regime.

Prepared by Enterprise NI
31 July 2006

Industrial Task Force

Presentation to PGC Economic Sub-Group by
Sir George Quigley (Chairman, Industrial Task Force)

on 3 August 2006

The major impediments to the development of the economy

1. The key point is that Northern Ireland's economic structure is not fit for purpose. The 'wealth' gap with the rest of the U.K. persists, with Gross Value Added (GVA) per head around 80% of the U.K. average. Scotland is close to the average.

2. Job growth has been good, at double the U.K. rate in the past 10 years, but the ability to catch up with the rest of the U.K. is constrained by the very worrying negative trend in labour productivity. This dropped by 7% from just over 88% of the UK average to just under 82% between 1998 and 2004.

3. Productivity in the production industries (including manufacturing) improved to slightly above the UK average but productivity in the service sector declined from 88% to a very poor 78%. But it was in this service sector that the job growth occurred – up nearly 17%, whereas manufacturing dropped 13%. The GVA of these service jobs is only 72% of jobs in manufacturing.

4. *It is clear that the structure of the Northern Ireland economy has been changing, but in the opposite direction to the creation of the high value added economy which is the declared aim of Government policy. Restructuring has been taking place through an employment boom in low productivity jobs. On this 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 U.K., is remote*.

5. The imbalance between the public and the private sectors is not conducive to closing the gap. The proportion of regional output spent by the Government in transfer payments (eg social security) and provision of services (eg health and education) is perhaps as much as 71% of GDP. The public sector accounts for 35% of all employment but for only 27% of GVA. It lags the wider economy in terms of productivity levels.

6. Public money is directly or indirectly supporting very strong consumer spending.

7. Simply cutting the public sector would achieve nothing. This will have to find its appropriate level within a rebalanced economy which has a greatly enhanced market sector. Such enhancement is urgent, since 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 unprecedently high level of 4.9% in recent years.

8. Economies that have to stand on their own feet cannot grow sustainably unless they have sectors which generate growth in net exports. They cannot indefinitely finance a growing deficit by debt rather than exports. But the relative dynamism of its export base is also critical for a region. Regions with an above average output of tradeable goods or services per capita will also tend to have above average per capita income. Northern Ireland's manufacturing sales outside the Republic and the rest of the UK only amount to £3.5bn per annum. Sales of services (for which there are no comprehensive figures) are unlikely to be more than a small fraction of that. To achieve catch-up with the rest of the UK and close the 'wealth' gap, Northern Ireland needs to achieve a massive increase in the size of its export base.

9. The conclusion is inescapable that Northern Ireland needs a far larger, export-driven private sector, with higher value added, higher productivity, higher earning power. We need to be far more deeply integrated into the global economy.

10. The existing private sector base lacks critical mass. However much its performance may be enhanced, it cannot on its own get Northern Ireland on to a new economic trajectory, any more than the Republic's private sector base could have done. *We need to attract a much stronger flow of inward investment of the right kind to achieve the private sector base just described. As argued below, this will not happen without a competitive corporation tax rate. Failure to succeed on this front will constitute an insuperable impediment to the development of the economy*.

11. Underperformance by the existing base will also impede development. The task will fall largely to companies in technology or market sectors where they have or can develop a competitive position. The Industrial Task Force identified the need for companies to:

- understand technological change, manage it in all its aspects and integrate it into the business.
- develop their international trade capabilities in support of a strong export thrust (with a steadily rising ratio of exports to home sales) and achieve a match between chosen export markets and emerging new patterns of economic activity worldwide.
- devote adequate resources to R&D and recognise the critical importance of new product development, with a significant proportion of turnover each year attributable to new products.

12. The Industrial Task Force recommended that a Centre be established to help companies brief themselves on relevant developments in technology worldwide and frame their business plans accordingly, with support for companies from Invest NI being dependent on them demonstrating that they had taken their bearings on the global technology map.

13. Government can assist the existing base by removing impediments (such as unnecessary cost and regulation) and creating a generally business-friendly environment. Invest NI can encourage, stimulate and support, as it does for example through its comprehensive range of measures in the general area of innovation. But, in the final analysis, unless there is evidence of market failure, the responsibility for growth has to be vigorously and effectively discharged by business itself.

Considering fiscal incentives that may promote foreign direct investment and indigenous investment

14. The above analysis makes the case for a greatly increased flow of inward investment. As well as embarking on the long, slow task of growing one's own timber, one has to buy in the capabilities – the innovation, the skills, the marketing outreach – of established, high value added, technologically driven, profitable companies world-wide.

15. This cannot be done without the ability to compete on corporate tax and, given Northern Ireland's location on an island whose other half is able to offer a headline rate of 12½% compared with our 30%, anything more than 12½% would not be competitive. A Report a year ago by Goodbody Stockbrokers was unequivocal on the point: "The North will continue to operate at a disadvantage to the Republic in terms of attracting major investment projects, due to the enormous tax differential between the two …… The 12½% 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".

16. Between 1995 and 2004, FDI inflows to the Republic came to around £70 billion, some 25 times the Northern Ireland figure of around £2.8 billion. 90% of the Republic's manufactured exports and 70% of its services exports are now by foreign-owned companies. Its sales of manufactured goods outside the British Isles amount to around 14 times the Northern Ireland figure. Foreign companies contribute some 50% of the corporate tax yield. A large part of the restructuring of the Irish economy towards higher tech activities is largely down to the presence of foreign firms, which also furnish new business opportunities for indigenous companies and serve as a breeding ground for entrepreneurs. FDI flows act on the economy qualitatively as well as quantitatively. That kind of impact and influence has been lacking in Northern Ireland.

17. Not surprisingly, the OECD Economic Survey Report on the Republic in 1999 said that the "massive inflow of direct investment has been the major formative shock influencing the economy in the 1990s".

18. The International Financial Services Centre is a showcase for the policy. A tax partner in the Dublin office of Price Waterhouse said recently: "The last big differentiator is low taxation. We would be extremely foolish to throw away that advantage".

19. Research has established the sensitivity of US FDI to tax rates and to the considerably higher returns to be earned in low tax locations. A very significant US figure well versed in Irish affairs, in a recent letter to me, wrote: "With all of the corporate and financial clients I advise, the corporate tax rate is right at the top of the list when we discuss potential foreign investments". That gives a low tax location a real headstart in negotiations over those seeking to demonstrate the merits of an inevitably more complex and less predicable deal which seeks to compensate for a tax disadvantage.

20. There is now a multitude of studies demonstrating the importance of tax in the location decisions of companies. They strongly support the view that policies aiming at attracting multinationals

should reduce corporate income tax rates. The decision where to locate can be a fine one, easily affected by differences in taxation.

21. Obviously global FDI ebbs and flows. The crucial necessity is to position ourselves to get a bigger share of what is available. When tax is so important, being competitive on everything except tax will not do that. Being enterprising on tax policy could make the vital difference.

22. I have seen it argued that our headline or standard 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 in the Republic becomes insignificant. That is not what the published studies indicate. The following quotation from a Research Report by the Centre for European Economic Research in Mannheim is typical: “In the context of taxation as a location factor, measures of an effective tax burden should be calculated as a share of an investor’s financial target, eg the project’s net present value …. The effective average tax rate (EATR) shows the effective tax burden on profitable investments …. The EATR reflects the percentage reduction of the net present value …. that is caused by taxation”.

23. The same study gives the Effective Average Tax Rate for the 25 EU countries in 2005. That for the Republic was 14.7%; that for the UK was 28.9%. The UK was the 7th highest. The Republic’s was bettered only by Cyprus at 9.7%, Lithuania at 12.8%, and Latvia at 14.4%.

24. The headline rate is also however, important. The higher the expected profit in a situation where expenses rise more slowly than profit and the allowances which bring down the effective rate are therefore not triggered, the more relevant the headline or statutory rate becomes because that is the rate at which the company’s strong profit stream will be taxed. And of course the sheer market arousal effect of a low headline rate is extremely potent, as the Republic has discovered. It acts as a magnet not just for manufacturing but for services and for R&D as well. This latter point is important. A recent Northern Ireland study said that there is a strong case for operating an inward investment strategy that attracts larger companies and plants that are more likely to have the capabilities to undertake R&D through their exploitation of economies of scale and scope and their international links and orientation.

25. There is also a concept known as the Effective Marginal Tax Rate and confusion is often caused by using it in the discussion of taxation as a location factor. Research indicates that it has no statistically significant impact on location decisions.

26. So far as inward investment goes, being cheek by jowl on the island with a State able to attract most of the significant growth coming to the island and retain for itself most of the follow-on investment has been a serious disadvantage. But remove the tax disadvantage and Northern Ireland would derive immense benefit from sharing the island with a State which 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.

27. A strong economic cluster extending over the whole island and deriving strength from the capacity available in both parts enhances the ability of both to participate fully in the global trade and investment flows. This could be particularly relevant now in light of a recent survey by the American Chamber of Commerce in Ireland which (according to press reports)

claimed that, because of the high cost base and skills shortages, over 40% of companies polled suggested that the Republic would not be a preferred location for further stages of FDI and 25% indicated that investment opportunities had already been lost. In other words, as regards the two halves of the island, this need no longer be a zero sum game.

28. More generally on the corporation tax issue, it is interesting that neither the Prime Minister, The Chancellor of the Exchequer nor the Secretary of State has ruled the issue out of consideration. This 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 (which is both unprecedented and unlikely to recur) to set Northern Ireland on the path to a new economic future.

29. The benefits would accrue not only to Northern Ireland. The benefits to the UK national interest of a stable, prosperous Northern Ireland are self-evident. Moreover, stimulating an increase in the tax base by lowering the tax rate (as happened to such effect in the Republic) is the only means of reducing public sector dependency and curtailing the £6bn a year drain on Exchequer funds. 11 out of the 14 OECD countries that lowered their company tax rates between 2000 and 2004 increased their corporate tax receipts.

30. For this reason any suggestion that the Northern Ireland public expenditure block should be cut by whatever amount the Treasury would lose in the short term in corporate tax would be wholly unreasonable. 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 whilst a more robust structure is in gestation would be counterproductive as well as (particularly in the context of a new Executive) politically unrealistic. If 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 incremental tinkering is required. The Industrial Task Force is not aware of any alternative means which has been suggested for achieving sustainability.

31. This presentation has focussed on the relevance of a corporation tax change for inward investment. It could also be expected to administer a beneficial shock to the existing base. The business bodies at 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 business were uniquely immune from the positive effects of tax change.

32. The Industrial Task Force has commissioned further work on the corporation tax proposition. This will seek inter alia to assess 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. 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, the results of this further work will be put at the disposal of the Sub-group.

33. The case for achieving economic growth by significantly enhancing fiscal incentives to encourage expenditure on R&D has been examined in a recently published Report by Professor Richard Harris which was commissioned by ERINI. The Report suggests that

there are more fundamental reasons than cost why firms do not invest in R&D. The basic problem is not a resource gap but a capabilities gap and changing these takes a long time. The Report concluded that on its own an R&D tax credit (which would be expensive) is unlikely to change the lack of an R&D culture in the Province.

34. This accords with the outcome of a Report by PriceWaterhouse Coopers' London office, which looked at the take-up by SMEs of tax breaks such as R&D tax credits, first year allowances for the acquisition of capital assets and capital allowances on energy saving technologies. 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.

35. 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 corporate tax proposal and would not be directed to, or achieve, its purposes.

36. In the context of fiscal incentives there has been some discussion of the reduction of fuel duty. Obviously, to the extent that it lowered business costs or led to a revival in the fortunes of fuel suppliers within Northern Ireland, or reduced the opportunity for criminality, this would be beneficial. The argument for it on business cost grounds alone is, however, not on a par with the strategic arguments to be adduced for a reduction in corporation tax. Whether the change resulted in gain or loss for the Exchequer would depend on whether the gain from being able to levy duty on those who currently escape the net illegally or who legally buy their fuel in the Republic would offset the loss from roughly halving the duty levied on those who currently pay duty. If there were a loss, it is unlikely that (contrary to the case with a reduction in corporation tax) it could be progressively recouped by an increase in consumption stimulated by the lower fuel duty. Presumably any such result would in any event run counter to other environmental considerations.

Constructing an economic package to contribute to economic regeneration

37. 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. This is the unsustainability of a grossly unbalanced economy which, despite massive annual transfers from the Exchequer, cannot achieve the average 'wealth' level for the UK. A radical restructuring of the local economy, achieved by far deeper integration into the global economy, is essential. Without a competitive tax rate it will not be achieved. To trade such an initiative for other measures which, viewed in historical perspective, simply represent more of the same, would be counterproductive.

38. This is not to say that there is no need for other initiatives which are compatible with the restructuring objective. Such initiatives do not necessarily all require more money. It may be a matter in some cases of directing existing resources more effectively. This is why it is difficult, without the detailed examination of the relevant budgets which is only possible from within Government, to quantify the resource implications of such initiatives. I therefore offer no more than guidelines.

39. Given that the key to a sustainable economic future lies in a major expansion in the market sector, it is vital that Invest NI should be adequately resourced to match the competition in terms of state aids. This should be easier in the context of a competitive corporation tax rate. It should be ensured that Invest NI is also equipped to be as effective as Enterprise Ireland in the Republic in boosting the performance of companies in such critical areas as R&D, technology licensing, and export marketing. Not just promoting start-ups but, very importantly, carefully nurturing the most promising through their evolution as SMEs to become really significant contributors to the economy is also critical.

40. An important untapped source of labour supply to support economic growth is those who are economically inactive. The rate of economic inactivity in Northern Ireland is some 7 p.p. above the UK figure. Equipping such of these as can do so to enter the labour market is key, as is the upgrading of the skill level of the population generally. One would hesitate (particularly in light of the Secretary of State's recent injection of extra funding) to say that more resources are needed for this, without satisfying oneself that value for money is being obtained.

41. A stage has to be reached where remedying lack of basic educational attainment within the population is unnecessary because pupils are leaving school properly equipped. Setting firm targets for eliminating the long tail of underachievement, and closely tracking and tackling obstacles seems overdue. Only then would it emerge to what extent resources need to be better directed and/or boosted. More generally, it should, of course, be part of the ongoing agenda to make the profile of the education system match our economic ambitions.

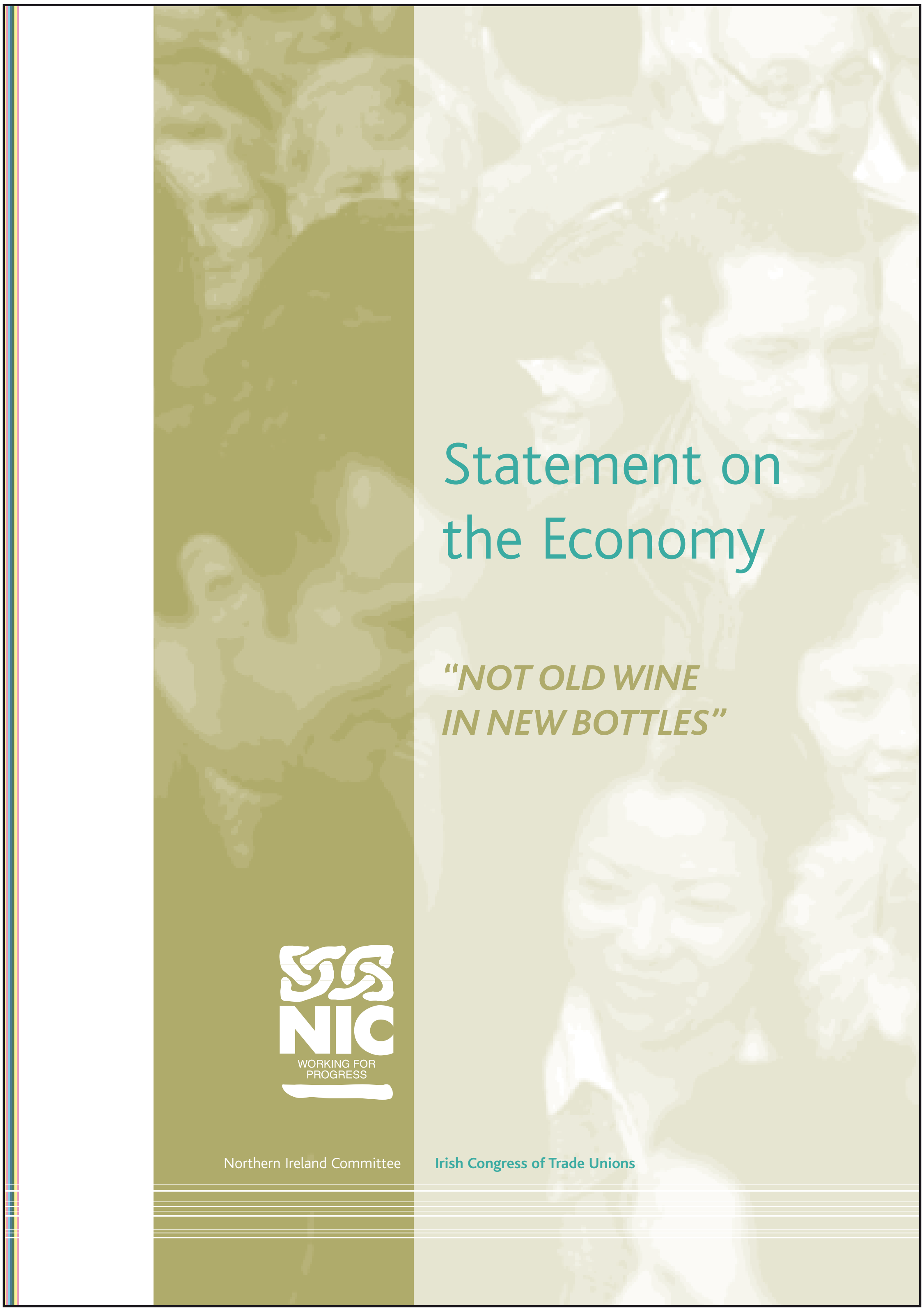
42. Full advantage should be taken of the recent signs of an upturn in the willingness of tourists to come to Northern Ireland. Firm targets should be in place to treble the contribution which Tourism makes to GDP and identify how impediments to their achievement can be removed. The greatly reduced corporation tax rate proposed in this presentation should give a considerable boost to the hospitality industry.

43. It is always tempting to say that more should be spent on infrastructure. Before yielding to the temptation, it would be prudent to recognise the increase already projected for capital spending; assess the validity of the balance within it; and devise a scoring process for projects. If growing the market sector is to be the centrepiece of economic policy, infrastructure deficits which could frustrate that policy should clearly have priority, bearing in mind, however, that there are many locations (including the Republic) which have proved very attractive to inward investors despite having serious deficiencies in infrastructure.

44. I do not deal with the issue of business rates since I understand that this is the subject of a separate study.

45. An economic package constructed on these lines could usefully supplement the reduction in the rate of corporation tax and improve the supply side conditions which enhance the attractiveness of a host location. It is, however, essentially 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 cannot get on to a new economic trajectory.

NIC-ICTU


Statement on the Economy
"NOT OLD WINE IN NEW BOTTLES"
NIC
WORKING FOR PROGRESS
Northern Ireland Committee
Irish Congress of Trade Unions

introduction

Old Wine in New Bottles

Over the past decade, there has emerged a new 'conventional wisdom' about the condition of, and prospects for, the Northern Ireland economy. The Northern Ireland Secretary of State, Peter Hain, summarised the key arguments in a speech to the Fabian Society in January 2006. He claimed that he was responding to the lack of serious, realistic debate on key economic issues, in particular about how the local economy could respond to the global competitive pressures.

His central contention was that, unless things changed, the economy would not be sustainable in the medium, never mind the long, term. A key feature of the problem was the high reliance on public spending (two thirds of GDP) that required an annual subsidy of £5 billion from the British Exchequer to maintain it. At the same time, higher relative spending levels had failed to deliver quality services – the local NHS had the highest waiting lists in the UK – the local education system signally failed a significant section of the school population – the area was over-administered with too many units of local government, health education etc. In a radio interview in March, he took the argument further – the very large scale of the public sector was 'crowding out' the private sector and was thus acting as an inhibitor on its development.

Moreover, this was in the context of relatively low local rates (around £550 per household) compared to an average combined community charge and water bill of £1,200 in England, where the bulk of the Exchequer subsidy had to be raised.

Some of these problems were being addressed by existing initiatives – the Review of Public Administration.

However, an additional range of interventions was required:

1 The economy needed to be 'rebalanced' so that the ratio between public and private sector activity shifted closer to the average for the UK (40%);

2 The public sector needed to be improved in terms of both efficiency and effectiveness via a 2.5 per cent annual efficiency saving to be transferred from back-office to front-line services;

3 There was an urgent need for a sustainable energy strategy.

A fourth, though unprioritised, theme of the speech was greater cooperation with the Irish Republic and a greater focus on all-island economic strategies and more complementarity between both states in Ireland.

This general analysis and the recommendations that emerge from it are shared by many who comment on the economy. It is important to note, however, that such arguments are not new, but have simply been repackaged for consumption in the 21st Century. Indeed, the proposition that the public sector was too large and crowded out the private was developed in the mid 1970s and not only provided the framework for the Thatcherite assault on Labour, but was also the core operating assumption for economic policy under the Tories. Thirty years later, it has simply been reframed with a regional focus.

It is, nevertheless, important that the Trade Union Movement takes it seriously and declares where it stands on these issues that are vital to the well-being of the Northern Ireland people and the economic development trajectory of the region.

Ignoring the Issues?

Before commenting on the specific arguments, it is worth addressing the contention that mainstream political debate has taken its eye off these core economic development issues. The Trade Union Movement agrees and, indeed, has been saying so for more than 30 years. Since the 1970s, in both its statements and campaigning, it has demanded that politicians focus on the economy. In 1974 during the massive intimidation of the 'Ulster Workers' stoppage, it organised back to work marches with remarkably little support from direct rule ministers. It originated the Better Life for All campaign. It has participated in every initiative to bring peace and prosperity to Northern Ireland. In short, it does not need to be told – 'it's the economy, stupid'.

Is the Northern Ireland Public Sector too large?

The scale of the public sector is measured in relative rather than absolute terms, principally its share of total GDP, but also it should be noted that it is a function of population size. However, GDP is a measure of output and a substantial element of public spending is about redistribution rather than output (i.e. redistributing income from tax payers to those on various kinds of benefits). Thus, taking all public expenditure as a percentage of total GDP tends to over-emphasise its real share of GDP. Some commentators deliberately gloss over the fact that large chunks of public expenditure are paid into the private sector in the form of grant aids, etc. This is compounded for regions with substantial levels of poverty-social-exclusion where relatively high shares of regional income are benefits derived – in the case of Northern Ireland over 20%. It also means that simple comparisons of public spending as a share of GDP between such regions and the whole state (e.g. public expenditure making up over 60% of GDP in Northern Ireland compared to 40% in the UK) is unfair to the more deprived regions.

Deprived regions will, in general, require more public expenditure, not just in the form of relatively higher numbers in receipt of benefits, but a higher share of social housing and more intensive use of NHS resources. Richer regions are beginning to exhibit a phenomenon known as wealth-social-exclusion where the rich 'opt out' of state schools, National Health Service facilities and so on. In turn, this means less pressure in such regions on the public sector to deliver the totality of services. Regions in which the public sector is responsible for the totality of services will have to spend more. Northern Ireland is one such region.

Another factor that should be taken into account when examining the scale of the public sector at regional level is the impact of population movement. Many of Northern Ireland's best educated people leave the region in pursuit of better career opportunities elsewhere. Thus, the investment in their education and skill is gained by other regions, but the public spending associated with gaining such skills and qualifications is tracked to Northern Ireland. Of course, the region benefits also from those who migrate here, but to the extent that it remains a net exporter of skilled labour, the public spending comparisons are distorted.

There is a further problem with comparing a small region, like Northern Ireland, with a much larger entity like the UK because there is considerable variation in the scale of the public sector within the UK regions. For example, David Smyth, the economics editor of the Sunday Times revealed in March 2006 that 'in areas such as the northeast of England the state accounts for 60% of the economy' Thus, compared to another weak region, Northern Ireland's public sector does not look disproportionately big. Moreover, given that Northern Ireland has always had separate public accounts, it is much easier to identify the total volume of spending and the degree of subsidy required to support it. Other weak regions have similarly large public sectors and require central government subsidy – it is simply less apparent than in Northern Ireland.

Moreover, the northeast of England has not endured three decades of violent political conflict. Economists like John Bradley (1996) have suggested that the political conflict was one of the key factors accounting for Northern Ireland's historic underperformance. The impact of political violence includes:

1 The direct costs in terms of the dead, injured, damaged property/infrastructure and job loss within the economy;

2 *Over the past twenty-five years the public sector has grown substantially, in no small measure due to the Troubles* (Northern Ireland Economic Council 1995) - associated with higher need and additional costs (e.g. security);

3 Political uncertainty inhibiting the ability of firms to plan for the longer term and set down long-lasting roots in any particular place - *Political risk can be expected to have a particular influence on the size of the tradable goods sector. This sector has an alternative to invest elsewhere, and, for a given rate of return, will seek out a lower risk environment* (Barnett, 1995);

4 Indirect costs in terms of the diseconomies of conflict – inefficient labour and housing markets generated by intimidation and community division – the lack of social capital, the complex matrix of trust, collaboration and shared responsibility that some argue is a necessary precondition for successful development – community segregation that inhibits the scale on which local development can take place thus inhibiting opportunities for success.

Thus, Northern Ireland cannot be treated as just another UK region. Certainly the peace process has brought enormous economic gains, but many of the political effects of residual conflict remain and these have distinct implications for the scale of the public sector.

It should be noted that the 'solution' advocated by others to the problems of an alleged 'over-large' public sector is focused on the involvement of the private sector in the delivery of public services. This is based on the assumption that the private sector will bring independent resources into the equation, as for example in the multiple PFI projects. However, in general the private sector pays higher interest on the money it borrows than the public. On that basis alone, the private sector will ultimately be more expensive. It is supposed to work by making efficiency savings so that total costs will still be less even after higher barrowing costs. However, many evaluations of PFI initiatives have challenged the notion that the private

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sector does introduce greater efficiency. Rather, these paint a picture of extreme cost cutting through the reduction of quality service. The MRSA debate makes the point.

In addition, the following costs of public private partnerships have been identified.

- Transferring debt off the Government's balance sheet comes at a cost of billions of pounds in extra debt charges.
- The creation of a 'secondary market' in PFI equity and debt means that the public is unaware who owns 'public assets'.
- Some contractors have achieved windfall profits of millions of pounds through refinancing and selling equity stakes in PFI contracts.
- A declining pool of willing and able PFI specialists means that the Government will pay an increasingly high price for PFI contracts and will find it difficult to get the market to provide all the schools and hospitals it wants to procure under PFI.
- Annual expenditure commitments on PFI are at least £4bn until 2012, much more than if these projects were conventionally procured.

At the same time, the Secretary of State not only claimed that the public sector in Northern is too large, but that local contributions (in the form of rates) are markedly lower. This raises an equity problem if other British citizens have to pay more for similar services than those in Northern Ireland. Again, however, the simple comparison is misleading. Rates are based on property valuations and despite recent increases in house prices in Northern Ireland, the average price of a house here remains lower than in the UK. Thus, the average amount of rates paid in Northern Ireland will be lower even if calculated on exactly the same basis as in the rest of the UK. The rates comparison is like saying that the average amount paid in income tax in a poor region is lower than in a rich one and suggesting it to be unfair.

Water charges are something else. The Northern Ireland Trade Union Movement has opposed the privatisation of utilities as a matter of principle not because of a reluctance to pay. It remains convinced that the provision of water supplies is a natural monopoly that can be best delivered with efficiency and equity via the public sector. It recognises the need for substantial physical investment, the need to improve the treatment of waste water, rivers and beaches and the need for an efficient, effective service. It does not regard the experience of privatised utilities in Britain as offering a model for best practice in these respects. Indeed, there is considerable disquiet in the developing world about the role of private water utilities with the consensus being that they will fail to access more than a fraction of the billion people without clean water supplies. Most of all, it does not believe that people should be denied access to the most basic of all services on the basis of income deficiency. In this respect, the Poverty and Social Exclusion Bulletin on water poverty found that the proposed arrangements for low income families are inadequate and regressive.

This is not to avoid the challenge of making the provision of public services more efficient, effective and equitable. Tackling waiting lists is but one aspect of this process, but there is greater long-term gain in tackling the causes of morbidity (largely to be found in forms of multiple deprivation) than treating its effects. Thus rather than just the importation of managerial ideology in the running of public services or the rationalisation of structures, the key task is to reconfigure their operation to tackle root causes. In health, some progress was made in the Investing for Health process, but the ideas in that strategy need to be at the core of mainstream health provision.

Central to that process is reinvigorating the morale, commitment and energies of public sector employees who feel displaced by the endless managerial revolutions and changes in structure. The original conception of the welfare state involved a value system of providing service to those in need. Too much of that has been lost in endless reorganisation and this might help to explain the low productivity gains from Gordon Brown's substantial investment in the public sector. The key to restoring public service values is to ensure that decision making, rather than coming from the top, is made at regional level – the principle of subsidiarity. When employees and patients/clients are fully involved in the design, delivery and evaluation of public services, then we could expect real gains in efficiency and effectiveness.

The Trade Union Movement agrees that a process of sustainability will have to take place in Northern Ireland and affirms the idea of a self-sustaining region that can deliver economic growth and social inclusion without the need for external subsidy. However, it remains unconvinced that the Secretary of State has shown us the way to do so.

The Role of the Private Sector?

Since the scale of the public sector is measured relatively, it could also be said that the private sector is too small, or more accurately if the wealth creating sector (public or private or combinations thereof) was much larger. If total public spending (including the Northern Ireland Office) amounts to around £12 billion and Northern Ireland's GDP is less than £24 billion, then the ratio looks high. However, if GDP was in the region of £30 billion, then Northern Ireland's public sector would be completely unexceptional.

Increasing regional GDP by around a quarter is a serious challenge, but the Trade Union Movement remains convinced that this should be the starting point in any strategic discussion about the economic development of the region. If the target was a 25 per increase in GDP above the actual trend, the question would then be what particular contribution the public and private sectors and the organisations of civil society can assist the achievement of that goal, both individually and co-operatively.

From that perspective, it makes little sense to suggest that the development of the public sector 'crowds out' the private. It can hardly be suggested that the private sector in Northern Ireland has been denied adequate resources for development. Even Strategy 2010 provided evidence of considerably greater subsidy to the private sector in Northern Ireland than in England and Wales. A report by the Northern Ireland Economic Council (1999) suggests that, in the previous decade, policy was implemented with considerable variation amongst the DED agencies and with mixed results. For example:

...there has been little reduction in overall public expenditure on economic development, either in absolute terms or relative to GB...;

...there is scant evidence that the Government's economic development strategy is being implemented with vigour.

IDB, the lead development agency, has not made substantial progress in implementing 'Competing in the 1990s';

This decade has seen a new department and new economic development agencies with a renewed focus on competitiveness enhancing strategies. However, the previous two decades saw money thrown at the private sector with scant regard for public sector return. It should be said that such policies were the direct responsibility of Peter Hain's predecessors.

It has also been argued that the public sector attracts scarce resources in terms of talent and skills that are needed by the private. However, our education system provides an excellent service at the top (many of whom then migrate), but continues to under-perform at the bottom. This is most explicitly illustrated by the fact that in an era supposedly defined as the 'information age' with skills as the universal currency, Northern Ireland's largest city Belfast has a school system where a quarter of children leave primary school without the appropriate literacy/numeracy skills; 40% of teenagers failing at maths and 51.5% of boys in secondary schools failing to reach the expected standard in English and two-thirds failing basic literacy tests. Peter Hain, Secretary of State for Wales should perhaps look to Bevan "You cannot make progress without treading on somebody's corns. So long as the right people squeal I like to hear them" to face down the voluble grammar school mafia who regard the continuing exclusion of the many as a price worth paying for their privilege.

As a result the skills profile of the labour force remains deficient. Providing industry with sufficiently skilled and qualified people requires challenging an education system that is segregated by social class, religion and, in many cases, gender. It is to be hoped that the Bain review of the education system will tackle the inequities in the system that also inhibit the development of the economy.

A Different Agenda

A key challenge for any region in the 21st Century is to find a development model that will enable it to compete economically on a global scale while retaining its commitment to social cohesion and social inclusion. This will be no easy task. Even large economic units, like the EU, are not immune to rapid changes occurring within the world economy. The world has become more open, more complex and more interdependent. The end result is that international developments have had an increasing significant impact on national economies and regions have become more open to competition from elsewhere.

At the same time, however, there is no international consensus about how competitiveness can be achieved. The Asian model of export-led development sustained by a close alliance between enterprises, government and the banks has been tarnished by recent problems. The United States approach has produced impressive growth and millions of jobs, but the bottom 40 per cent of US society has paid the price in terms of slow growth in real incomes and greater risk of job loss.

By definition, regional economies are smaller than their nation states. As a result, they are more open and more dependent on external trade. Success requires an ability to attract external customers. Their labour markets are also more open – declining regions tend to lose knowledge intensive and highly skilled workers, successful regions gain them. Nevertheless, regions can have two key advantages (Nyhan, 1999):

1 Cohesiveness and manoeuvrability in being able to target high value-added external markets and

2 High competence profile and versatility of its workforce, which gives the capacity to deliver the required goods and services for these markets.

Achieving these advantages requires an integrated approach within the framework of a new development model. On one hand, there has been recognition that top-down, centrally-driven programmes are too inflexible to account for the unique circumstances in each local area, and, on the other hand, there has been a growth of well organised and increasingly vociferous local organisations determined to contribute to regional development.

However, since the mid-1960s, mechanisms to tackle poverty and to stimulate economic growth have been traditionally separate. The basic principle was that macro-economic and regional policies would create the conditions for competitiveness and growth while social integration programmes would enable the disadvantaged to grasp the opportunities of an expanding economy. The growth of structural unemployment and the persistence of long-term unemployment generated a new emphasis on labour market, rather than social, integration, but the insulation of economic development and integration measures has remained.

In the contemporary situation, however, separate programmes do not address the complex interplay and overlapping of economic and social problems. Thus, New Labour has constantly emphasised the necessity for 'joined-up' government; although without spelling out how can this be operationalised without additional layers of bureaucracy. However, the integration of different programmes requires the mobilisation of all possible resources (human, social, economic and political) while retaining popular stakeholding and ownership. While policy integration has a strong regional and local dimension, if an increasing share of decision-making can be taken at the local level, Northern Ireland's 'democratic deficit', though a cliché, is a reality. This informs what passes for political discourse and therefore limits the requirements for logic, planning, focus, discipline and output that need to be the bedrock for political/economic regeneration.

The Trade Union Movement has no problem with the Secretary of State expressing a desire to *"develop a sustainable energy strategy that protects our environment, invests in renewables, and delivers fairness to consumers"*, however, to move this beyond rhetoric he has to address how to oppose the economic orthodoxy that allows the market to act as it pleases. In environmental terms, therefore, watchdogs local, and international need to be supported. In addition, while supporting the restoration of the Assembly, we should focus on the need for an effective, well informed, accountable devolution.

Best (2000) argues that the key to regional development lies in productivity growth that is derived from production capabilities, which include technology and skills. This requires synchronised advances in business organisation, production capabilities and skill formation – the productivity triad. In Europe, similar sets of ideas have emerged in the debate about the 'learning region'. Here the focus is on small to medium sized enterprises *(the backbone of economic life in most European regions)* and on the supporting and complementary activities of other institutions. The co-production of common solutions is emphasised, organised by way of genuine partnership arrangements that bypass bureaucratic control and transcend competition.

The UK hits the average EU-25 spend on R&D in 2004, 1.9% of GDP by business and public sector combined. Compare this to Sweden (3.7%), Finland (3.5%) and Denmark (2.4%). NI needs to emulate the level of expenditure of these other small successful economies just to catch up to the average. NI expenditure on R&D is worse than the UK average. Excluding public sector spending on R&D, the UK private business sector invested 1.4% in research and development projects in 2004. The equivalent figure for NI was 0.8%. (DTI Regional Competitiveness Indicators).

To achieve success, Congress urges that the following targets need to be reached in a reasonable timescale:

- R&D intensity (as a proportion of GDP) should be at least 3% EU and this target should be reached by 2010 (a goal set by the Lisbon summit in EU)
- At least two thirds of R&D expenditure should be financed by the business sector, also a Lisbon target.
- There must be significant synergy between business and universities with business financing significant R&D projects at third level institutions.
- High-technology exports as a percentage of total exports should be similar to Scandinavian levels.
- The proportion of Science & Engineering graduates per 1,000 must be among the highest in Europe, at least above average.
- The proportion of the workforce involved in lifelong learning should be above the EU average
- Innovation must lead not just to new products and services but ones which are delivered to market efficiently.
- Availability of venture capital should be easy and the process as uncomplicated as possible.
- High ICT expenditures (incl. on broadband penetration) is essential
- employment in high technology services needs to be expanded
- The innovative capabilities of SMEs especially must be greatly expanded.

Congress posits the following areas for debate:

Manufacturing Industry

Denmark, Switzerland, Finland, Germany, Italy, Sweden are six high-cost economies with strongly performing manufacturing sectors which are sustained through growing automation. They compete in terms of high precision and quality rather than price. More than their competitors they use integrated automation in machinery and in back-office operations.

Six manufacturing sectors have been identified as important to these economies and to Ireland:

- Construction components
- Electronics sub-supply
- Engineering sub-supply
- Food ingredients
- Medical devices
- Prepared consumer foods.

For SME's to make significant gains in these industries, it is essential to gain access to dynamic networks of suppliers, sub-suppliers, sales outlets, officials in public agencies dealing with these sectors, European contacts, academics working on relevant technology etc. These networks already exist informally, and sometimes formally, among business organisations. Active participation in dynamic networks has been shown to be a significant boost to productivity.

All-island networks are especially significant. One of the great disadvantages which NI business operates under is the 12.5% Corporation Profits Tax for firms in the Republic. It is alleged it gives the Republic a huge advantage in attracting Foreign Direct Investment. Unless NI can operate on a level playing field, it is arguable that a dynamic all-island economy, where productivity and income levels can converge towards the upper end of the European scale, may never occur.

The conditions can be equalised by introducing the same taxation rate throughout the island or by finding some way of providing NI businesses with advantages which would compensate for the higher tax rates through grants, tax relief etc. In the context of a European dimension Congress has argued for a co-ordinated tax strategy across the EU.

Taxation

A common tax rate would be difficult to achieve as other regions of the UK would seek the same. However, Congress believes that if both governments were willing, they could find a solution to this problem. Business networks could be formally set up in each sector, regulated, but not run by the authorities. They could be run by trade associations. Businesses anywhere in Ireland could register to join an all-island network, pay a fee and engage in the market intelligence gathering, technology transfer and diffusion which are the crucial business of such networks. In addition, state agencies could provide productivity funds for SME's technology acquisition grants etc. (Studies show a 15% - 20% improvement in productivity for those who participated in such funds.) Only companies registered in a network could avail of the benefits. Governments could agree to match grants for projects which increase a productivity indicator (e.g. exports as a percentage of sales) with the equivalent in tax reliefs, for any taxes liable in excess of 12.5% of profits.

Biotechnology

A key area for future growth is the biotechnology sector. A National Institute for Bioprocessing, Research & Training has been set up at University College Dublin. Four leading third level institutions came together to form the Institute. They will provide the academic and technical expertise, as well as providing a research team which will undertake joint research projects between academia and industry to address the major technology issues of the industry. The aim is to act as a magnet attracting major bio-pharmaceutical investments from overseas and the indigenous market. It will create a competitive advantage through the achievement of a critical mass, as occurred with the chemical industry in Ringaskiddy.

The pharmaceutical sector in the Republic employs 20,000 people and has exports of €30 billion per annum. The Biopharmaceutical industry is growing at 15% per annum and two thirds of drugs have a biopharmaceutical base. As the Republic captured 25% of global FDI in the pharmaceutical sector, it is hoped to achieve similar success with biopharmaceuticals. NI also has a number of enterprises in this sector. However, there is little planning or integration as to how to ensure that the island as a whole gains in an optimum way from these developments. None of the founding Third Level Colleges, on the 'ground floor', are involved in the project. There is no indication that the industrial development agencies co-ordinated efforts in this instance.

This is understandable as they are in competition with each other for international mobile investment. There are also areas where their activities are complementary and add value to each other. Agencies North and South would want to encourage indigenous start-ups as well as attracting foreign investors. New start-ups regardless of where they are located will add value to the island economy as long as they are part of all-island networks.

Public Procurement

Congress has proposed the establishment of a high level Task Force to oversee a planned infrastructure spend of some €100 billion, north and south of the border. Congress proposes the Task Force would be charged with drawing up a strategic plan to ensure the planned investment package – €24 billion in Northern Ireland and €76 billion in the Republic of Ireland – is properly co-ordinated and delivers maximum benefit to the citizens of both jurisdictions. Such an approach is essential to ensure that this expenditure of €100 billion of ordinary taxpayers' money is used in a way that recognises the integral connection between a dynamic economy and a decent society. This unique investment opportunity can also develop practical ways of building effective and energetic relationships North and South that enable a reskilled and integrated labour market. Such an investment will have a major social and economic impact. We want to ensure that this investment changes patterns of disadvantage, protects and enhances work opportunities and supports the development of indigenous enterprise.

Transport & Regional Development

According to the recent NCB report, the population of the island could reach over 7 million by 2015. The number of cars on the roads will almost certainly double. The pressure on housing, infrastructure, and all services will increase to a point which may be unsustainable unless more rational strategic choices are made concerning regional planning and development.

The West of NI and of the Republic have always suffered from lower living standards, poorer services, less industry and a constant drain of people and resources.

Regional Development strategies, North & South have been drawn up to halt or reverse this process and all have failed. It is now imperative, as a matter of efficiency as well as equity, that far more powerful nodes of development are located in the West.

Both governments need to make some major decisions on the following matters, perhaps linked to the forthcoming National Development Plan 2007-12 for the Republic:

- A western Rail corridor linking Limerick-Galway-Castlebar-Sligo-Enniskillen-Derry-Letterkenny. This would be a major tourist boost for the west as well as attracting more investment and development along its length.
- Integrating Derry into the National Spatial Strategy as the leading Gateway and growth centre in the North-West.
- Establishing an integrated health service for the North West where the Hospitals and Health facilities of Fermanagh, Tyrone, Derry, Donegal, Sligo and Leitrim, would be open to all in that catchment area and the Health authorities would deliver an integrated service for the region.
- Similar decisions need to be made about the future of educational facilities, with the large number of vacant school places emerging in Northern Ireland.

Because of the long lead times in delivering major infrastructural projects, and the shortage of time before the infrastructure of the east coast becomes unable to take the ever growing pressure, these matters need to be treated with some urgency.

In short, there are many models of regional economic development that should be explored for Northern Ireland. The Secretary of State's approach is simply to resurrect arguments that should have been firmly buried in the 1970s. In addition, Peter Hain the Secretary of State for Northern Ireland and as a representative of New Labour might care to address how his recipe, having clearly failed in GB will be likely to succeed in even more testing conditions in NI. Failure in relation to equality issues in GB are illustrated as follows:

> In a detailed analysis of poverty and inequality, the Institute for Fiscal Studies said that eight years of Labour government had left inequality virtually unchanged from when Tony Blair first arrived in Downing Street in May 1997. Ministers, the IFS said, had struggled to reduce the number of people living on less than 60% of median income - the government's benchmark of poverty - at a time when average incomes had been rising more quickly than they had under the Thatcher and Major governments". (The Guardian, March 14, 2006)

Clearly, something more radical is required than the grafting of a failed

English model to Northern Ireland where: general poverty levels are higher than the Republic of Ireland or Britain; more than a quarter of all households in Northern Ireland defined as 'poor'; child poverty is calculated as affecting 8% of all children in Northern Ireland in 'severe' poverty (defined as lacking three meals a day and also more likely to be enduring inadequate housing conditions), wages (average wages 20% lower in Northern Ireland than in the UK) and 'fuel poverty' (experienced by 28% of Northern Ireland's households).

Furthermore, if the real peace dividend is a transformation from a 'war' economy to one based on education/skills/ training/innovation etc. we can support this rhetoric of delivery and accountability but oppose privatisation that is the enemy of both of these ambitions. Again, Bevan's "why look in the crystal ball when you can read the book" is appropriate here – to teach us what isn't the answer - the confusion of economic development with property development which, in Scotland, for example, "faced with some very simple demands for decent homes, decent services and decent jobs" appears to offer the most impoverished areas, the solution - "let them buy luxury flats"!.

Prosperity for Northern Ireland must be forward, rather than backward, looking. Four lessons follow:

1 The problems of disadvantaged regions are not going to be solved by more of the same. They need a fresh vision and fresh strategies. Moreover, while the long-term goal must be to generate a wealth/job creation sector, more resources will be required, at least in the short run, to put the region onto a different trajectory;

2 There is no quick fix. The duration and intensity of the difficulties demands a long-term strategy - a vision of at least 20 years - a 2020 Vision.

3 A special effort, above and beyond what has been attempted to date, must be made to tackle social exclusion in the widest sense. This is an essential and, if not pre-requisite, at least a simultaneously addressed, component of any debate on and delivery of economic transformation.

4 Any new approach, therefore, has to be characterised by genuine partnership. A partnership reflecting the composition of the political, economic and social organisations in NI, incorporating a new system of local governance affecting not just the economic but political and social.

Appendix

The Nordic countries are the leaders in the world competitiveness league tables and this is in no small measure due to their investment in R&D. The Nordic countries combine economic efficiency and social cohesion. They feature repeatedly in the top ten countries for competitiveness, productivity, labour force participation, good public services and social infrastructure, such as childcare. They have the highest level of investment in R&D and innovation in Europe. They are highly unionised and operate on the principles of a well-defined social dialogue. They have flexible labour markets in which the emphasis is on 'employability' rather than job protection per se. Sustainable development is a central part of their polity. Finally, these countries plan with a skill and foresight that we have not yet mastered.

Sweden

With Finland, Sweden is an innovative leader within the EU, **ranking first** among the EU countries. Sweden has **above average performance on all EIS indicators**. It ranks in 1st place for innovation & entrepreneurship and IPR and in 2nd place for the three other EIS indices. For individual indicators, Sweden only ranks below the EU average for the share of university R&D financed by business and in high-technology exports as a percentage of total exports. Many of the **trend results for Sweden are below the EU average**, but this is usually from a starting point well above the average.

Sweden continues to pull ahead of the EU trend for public R&D, but business R&D declined between 2001 and 2003, although still over double the EU average. Although Sweden is one of the EU innovation leaders, the country presents below average static economic performance on productivity or GDP per capita. However, the GDP growth rate is significantly higher than EU average with 20% above EU average between 1996 and 2004). It can therefore be expected that the return on investment in innovation will be a long term one. Taking full advantage of this long term investment will be the key challenge for Sweden.

Denmark

Denmark is **one of the most innovative countries** within the EU, as shown by **third place** performance on the EIS out of the 25 EU member states (for innovation drivers 3rd, IPR 4th and applications 4th). However, it is below the expectations of its performance peer group for knowledge creation, where it ranks 10th. Denmark's trend performance is **particularly good for venture capital and for business R&D**. The worst trend performance is for the broadband penetration rate.

Denmark is **only at the EU average** for two leading indicators for innovation drivers: the **supply of new S&E graduates** and the **youth education attainment level**. Improvements to the education system could be required to motivate an increase in the supply of S&E graduates. The next area of weakness, although only relative, is in innovation & entrepreneurship, due to average performance for the percentage of SMEs that innovate in-house and for ICT expenditures, and below average performance for the percentage of firms that have introduced non-technological change, such as organizational innovations.

Finland

Finland is one of the **EU's two star performers on innovation**, a position that it shares with Sweden. It **ranks second** out of the 25 EU countries. Finland ranks among the top three countries for each of the six EIS composite indices with the exception of applications. Consequently, **Finland has no readily identifiable weaknesses**, with above average results for all EIS indicators except one: the **youth share of the Finnish population is 18.6%**, which is below the EU country mean of 20.7%.

The **trend results are below the EU average for many indicators**, but this is often due to Finland's good performance. Although Finland is one of the EU innovation leaders, the country presents below average static economic performance. Finland's per capita GDP is below that of the majority of countries in the intermediate innovator group. More discouragingly, its labour productivity per hour worked in 2003 was only 92.6% of the average for the EU-15. However, the GDP growth rate is significantly higher than EU average (65% above EU-15 average on average between 1996 and 2004). It can therefore be expected that the return on investment in innovation will be a long term one. Taking full advantage of this long term investment will be the key challenge for Finland.

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Evidence to the Sub-Group on the Economic Challenges Facing Northern Ireland (A Sub-Group of the Assembly's Preparation for Government Committee)

Introduction

1. The Department welcomes the opportunity to contribute to the Sub-Group work. This paper seeks to identify the contribution of the education sector to broader economic development, the issues faced and the responses currently being implemented.

Detail

2. The Department recognises that Northern Ireland has enjoyed a long period of steady economic growth; that employment levels have increased and that unemployment stands at historically low levels; and that there has been a considerable investment in public services. The Department also recognises that there remains a number of economic and challenges such as the high level of economic inactivity, an over-dependence on the public sector, a comparatively small wealth producing sector, much of it in more traditional sectors, and a growing competitive challenge driven by the developments in the global economy.

3. Given the extent of the economic problems and challenges, the education system, from schools through to universities, must be increasingly aware of the importance of its contribution to the economic welfare of our society. In particular it recognises that skills, including numeracy and literacy skills, but also including personal skills, are key to the future of the NI economy, and in this area schools have a major role to play.

4. This paper therefore focuses on four key questions which the Department, the schools and the support bodies/managing authorities need to address in respect of the economic purpose of education.

    - Is the overall performance of the school system sufficiently strong?
    - Are standards of literacy and numeracy, in particular, improving at an appropriate pace?
    - Does the curriculum give sufficient emphasis to the needs of the economy?
    - Is provision for careers, employability, enterprise sufficiently effective?

Performance

5. It is important to recognise the areas of strength in the school system in Northern Ireland. In 2004/05, for example, Northern Ireland had a higher percentage of those achieving 2+ GCE A levels than England (2% higher) and of those achieving 5+ GCSEs at A* to C (4% higher). It also had 1% fewer pupils leaving school with no qualifications. However, the gap between Northern Ireland and England at GCE A level and GCSE A* to C has been steadily closing (in 1997/98 it was 6% at A level and 9% at GCSE; and 4% with no qualifications). Further, in 2004/05, England did marginally better at GCSE A* to G. Within the Northern Ireland performance there are considerable disparities between schools; in 20 schools (on a 4 year average to 2004/05) 20 per cent of the pupils or less passed at Level 2 (5 GCSEs A* to C). In response to this position the Education Order 2006 sets out the changes Ministers wish to see in the form of a revised curriculum, a new Entitlement Framework and new arrangements for admission to the post-primary sector. There is also a review underway of the whole School Improvement Strategy.

Numeracy and Literacy

6. The picture is similar in literacy and numeracy. In the OECD bench-marked PISA studies Northern Ireland comes out well. Also Northern Ireland out-performs England at GCSE English and Mathematics at Grade A* to C (in 2004/05 by 4% in the former and 5% in the latter). Again, however, this is not the full picture. England has again closed the gap considerably in recent years and, as indicated by the NIAO study into the Department's Literacy and Numeracy Strategies, progress in Northern Ireland has not been consistent nor universal and there are considerable differences in attainments by gender. Literacy and numeracy are essential building blocks for overall qualifications and skills levels and, for the individual, a necessary stepping stone for active participation in society as a whole. The Department has initiated a review of the Literacy and Numeracy Strategies.

7. In general terms, the performance of the school system brings benefits to the economy through the large number of highly qualified young people which it produces (though many seek their HE and often their employment outside Northern Ireland). However, in some areas, there is a considerable tail of young people who emerge with few or no qualifications. Since more young people with high qualifications leave Northern Ireland there is an impact on the overall qualifications levels of the workforce. Raising the performance of all schools is, therefore, an important policy objective for both the individual pupils and the wider economy.

Curriculum

8. There has been a growing perception that the curriculum, put in place in 1989/90, has encouraged too strong a focus on an academic style of education, a focus which has been reinforced by the importance within the system of GCSEs and GCE A levels. This has supported a powerful increase in the numbers of young people wishing to pursue a university education. It has been argued that this has diminished interest in and pursuit of the more professional and technical (vocational) areas of provision and has contributed to particular skill shortages in areas such as ICT, engineering and construction. The school curriculum could, therefore, do more to support the economy.

9. In recent years, supported by DEL, the Department has initiated change in the curriculum. First, the Key Stage 4 curriculum was disapplied in some schools to encourage innovation. Secondly, the Vocational Enhancement Programme was introduced in 2005/06 to promote school/FE collaboration at Key Stage 4 and post-16. An initial investment of £4m was increased to £6.7 in 2006/07. From engaging 175 post-primary schools and c8,000 pupils in 2005/06, it is hoped that some 200 schools and c12,000 pupils will be involved in 2006/07. There are encouraging signs that some grammar schools are understanding the benefits of professional and technical subjects, thus challenging the idea that these are only for the less able. In addition the Skills and Science Fund and Children and Young People's Package have enabled the two Departments to invest in a new programme for young people with special needs (including those with multiple barriers) and a specific pre-apprenticeship programme for 14-16 year olds.

10. Thirdly, following the passage of the Education Order 2006, the statutory curriculum is being revised. In three particular ways it recognises the economic purpose of education. It increases the emphasis on skills; in a new area of learning called Learning for Life and Work it introduces Education for Employability, which focuses on those elements which employers regard as essential for the world of work; and, in provision for 14-19 year olds, it introduces the concept of the Entitlement Framework to promote for all pupils a curriculum of breadth and balance – one-third of the courses offered by schools at Key Stage 4 and post-16 must be applied courses from the technical, and, professional (vocational) areas. Fourthly the Department has made a significant investment in ICT in schools over the last decade.

Careers, employability and enterprise

11. The revised curriculum will introduce Education for Employability to help young people better develop the qualities, skills, understanding and attitudes necessary for the world of work and which will promote support for lifelong learning. There will be an enhanced emphasis on careers planning and DE and DEL are currently reviewing the overall approach to careers education with a view to publishing in the autumn a strategy for an all-age, independent careers education, information advice and guidance approach. The skills of creativity, critical thinking, managing information, working with others and communication will be emphasised in the activities included within this area. There will also be a focus on enterprise and entrepreneurship. This is supported by business link programmes such as Young Enterprise (funded by Invest NI) and Sentinus (funded by DE) and many schools, in partnership with further education colleges, are offering the Certificate in Business Enterprise which enables young people to understand how a business operates. These programmes have also been able to expand the nature of their provision with investment from the Skills and Science Fund; Sentinus, for example will be able to support employability and the promotion of science and technology.

Conclusion

12. The Department believes that the education system in Northern Ireland is an important component in the development of the economy but it faces challenges, which, if overcome, can improve its overall contribution. These challenges lie in the areas of school performance, improved levels of literacy and numeracy, and curriculum development (particularly in the area

of Learning for Life and Work). The current changes are creating a learning and qualifications ladder which will promote progression and employability through providing a mix of broad education, professional/technical provision and employability skills; this needs to be more widely understood. As indicated earlier the Department, schools, support bodies and managing authorities must become increasingly aware of the important contribution which education can make to the economy. Education has to be seen as a central contributor to economic development, and to tackling economic activity levels.

Department of Employment and Learning

Report to the Sub-Group on Economic Challenges Facing Northern Ireland

Introduction

1 The Department for Employment and Learning welcomes the opportunity to present to the Sub-Group on the challenges facing the Northern Ireland economy, recognising the specific Terms of Reference.

2. DEL's business is to promote learning and skills, to prepare people for work and to support the economy. This is underpinned by its core objectives:-

(i) to promote economic, social and personal development through high quality learning, research and skills training; and

(ii) to help people into employment and promote good employment practice.

3. Of particular interest to this Committee is the 'Success Through Skills' strategy for Northern Ireland, which has widespread support across the business community and government and has created a framework to address the twin goals of social inclusion and economic success through:

- understanding the demand for skills which requires a focus on Labour Market information and a Regional Employment and Skills Action Plan;
- improving the skills level in the workforce looking at essential skills, careers, management and leadership and the promotion of Investors in People (IiP);
- improving the quality and relevance of education and training through our further and higher education sectors and reform of vocational qualifications;
- tackling the skills barriers to employment through the programmes of Welfare to Work.

4. Also of relevance to the Committee is the four strands of the work of the Economic Vision, namely the support for enterprise; skills and employability; innovation and infrastructure with the Department for Employment and Learning has specific responsibility for key elements of the vision.

Major Impediments to the Development of the Economy

5. Northern Ireland has achieved economic growth, falling unemployment and higher economic activity rates but, in contrast, productivity and thus our competitiveness lags behind the rest

of the UK. At the same time, we face competition from countries such as China, India and other Asian and Eastern European countries which are producing significant numbers of talented and high-skilled workers.

6. It is widely recognised that the skill levels of the workforce play a vital role in raising productivity, and competitiveness and, enhancing the levels of innovation. Northern Ireland has a number of challenges in terms of skills and innovation.

7. These include:

- dealing with the impact of the new skills and flexibilities demanded by increasing globalisation, which has meant that traditional manufacturing has moved to low-cost economies, an acceleration in the pace of technological change and, the need for new jobs with higher skill requirements;
- an increasingly international labour market where people will bring their skills here;
- raising the general level of skills in the existing workforce, reducing the scale of the problem of literacy and numeracy (almost 1 in 4 adults are at the lowest level of document and prose literacy) and ensuring that the education system which has many strengths in the academic curriculum, is equally strong in professional and technical subjects which are important to the Northern Ireland economy;
- addressing the high level of economic inactivity (27%) which constrains the size of the workforce available for economic growth; and
- addressing the negative impact of skill deficiencies in the workforce
  - around 30% of the workforce is not qualified to level 2 (equivalent to 5 GCSEs at levels A*-C); and
  - 22.4% have no qualifications at all, compared to 13.7% in UK;
  - only 41% of the workforce is qualified to level 3 (craft level); and
- insufficient investment in R&D by the private sector.

8. To address these deficiencies the Department has put in place a number of strategies under the umbrella of the Skills Strategy: Success Through Skills, including among others, FE Means Business; the Essential Skills Strategy; Pathways to Work. It is currently developing a new management and leadership strategy and, in conjunction with the Department of Education, a strategy for an independent all-age, careers education, information, advice and guidance service. The latter is due to be published in the Autumn.

Fiscal Incentives that May Promote Foreign Direct Investment (FDI) and Indigenous Investment

9. The experience in other countries, including the Republic of Ireland, and North Carolina, USA, in attracting FDI and growing indigenous companies shows that a well-educated and, in particular, a highly skilled workforce is a pre-requisite for success. Tax incentives and financial packages only come into consideration if a skilled workforce is in place.

10. In recent months, the Department has been working closely with Invest NI to create the necessary pool of skilled labour, particularly through the further education colleges and

universities, to secure FDI and to expand some existing high-value companies. This type of co-operation needs to expand to ensure that the tertiary education is flexible and responsive to the needs of business.

11. Other fiscal incentives could include tax credits to companies who invest in training and development, and programmes such as IiP to encourage employers to train and develop their workforce, including in management and leadership skills.

How Could Economic Regeneration be Delivered?

12. Investment in skills is central to economic regeneration as well as social well-being. There are different kinds of skills to be addressed:

- essential skills of literacy, numeracy and information and communications technology;
- employability skills including teamworking, problem-solving and flexibility; and
- work-based (occupational) skills including skills and competences established in the National Qualifications Framework and employer specific skills which build on the qualifications framework.

13. To raise productivity and compete successfully in a global environment, Northern Ireland must:

- raise the skills of the current workforce;
- enhance the 'knowledge base' of those entering the workforce;
- address the employability skills of those not in employment; and
- promote innovation through support for focused research and subsequent innovation.

Investment

14. Government invests heavily in the tertiary education and training system in Northern Ireland. In 2005-06 the recurrent budget for the further education sector was around £156m; £186m for universities including teacher education and £48m for the Jobskills programme. At the same time £23m was allocated to capital programmes in further education and £46m on universities. Despite this financial investment, the wide variety of learning and training programmes across Northern Ireland and the large number of training providers, the figures I have quoted demonstrate that a skills deficit still remains. As a consequence, the Department recognised the importance of re-focusing the further education sector specifically to support economic and workforce development. In addition, an overarching strategy for skills has been developed with a much clearer set of goals and an action plan designed to respond specifically to the needs of employers.

Information

15 Of central importance is that the strategy is demand-driven by the needs of the economy and for it to be more productive. With that in mind, the Department has established a Skills Expert Group with membership from the Institute of Directors, Confederation of British Industry, the trade unions, and Invest NI. In addition, the membership includes representation

from the United States and from the Skills Expert Group in the Republic of Ireland. The network of the 25 Sector Skills Councils is represented by the Sector Skills Development Agency. The Skills Expert Group will provide a long-term view on the skills needs and opportunities for Northern Ireland as a whole. Their work will be supported by a network of employer-led Workforce Development Fora, supported by the six area-based/FE colleges currently being established, which will provide a view of the skills needs and opportunities at a local and sub-regional level. The work of both groupings will provide the information upon which a Regional Employment and Skills Action Plan will be produced.

Quality and Relevance

16. An integral part of the skills strategy is the need to improve the quality and relevance of education and training. This includes the reshaping of the further education sector into six area-based colleges to enable them to support more effectively, economic and workforce development and their budget is being reshaped accordingly. The colleges will support business creation, incubation and product development and build on the successful centres of excellence. The curriculum provision is being focused on economic and workforce needs and DEL, in conjunction with the Department of Education, is developing a programme for all 14-19 year olds which enables them to gain a broad education while, at the same time, pursue more professional and technical subjects important to the Northern Ireland economy as well as gain the skills which make them employable.

17. To improve the quality and relevance of education also means that the Department is currently assessing the contribution which the higher education sector makes to meeting Northern Ireland's skills needs through Foundation Degrees, Honours Degrees and Postgraduate courses. We are also keen to ensure that employability skills are included in the programmes of all undergraduates building on the excellent work of NICENT in our two universities. The link between the demand for higher level skills and the supply from the universities must be clearly established. DEL, alongside the Northern Ireland Higher Education Council, which includes representation from the universities, is considering a strategy for higher education which takes account of the Economic Vision for Northern Ireland, the Regional Innovation Strategy and the wider Skills Strategy. The application of innovation is a necessary pre-condition for competitive performance if Northern Ireland is to become a high value economy. Over 50% of the expenditure on research and development in Northern Ireland has been by the universities and research shows a positive link between this and private product and process innovation. It is important that our universities translate research findings and expertise into economic and societal reality. Funding through the Higher Education Innovation Fund provided by Invest NI and DEL enables them to do this. Improving and enhancing Northern Ireland's R&D and innovation will lead to increased productivity and prosperity.

18. A new Professional and Technical Programme "Training for Success" is out for consultation. The programme gives a renewed emphasis is given to the apprenticeship programme especially in high skill areas as a valued alternative to full-time education, and, through funding from the Skills and Science Fund, includes a pre-apprenticeship programme for young people aged 14-16.

19. In terms of raising the skills of the current workforce, provision is free for essential skills training and, resources permitting, DEL has proposed the introduction of an all-age

apprenticeship. The 'Train to Gain' initiative in England is showing positive effects in increasing the number of people with qualifications. This initiative provides an entitlement to a first free level 2 qualification and, in those areas identified as important to the economy, young people between age 19-25 are entitled to a first free level 3 qualification.

Employability

20. In order to reach those who are economically inactive DEL has piloted a 'Pathways' programme, a menu-driven approach which targets provision to address their barriers to employment. These barriers include skills, ill-health, mobility, drug/alcohol misuse, homelessness, being an ex-prisoner/ex-offender. The menu of provision which will include options for increasing skills levels where that is seen as a major barrier to employment.

21. The expansion of the 'Return to Work' credit, currently available to claimants of Incapacity Benefit would be useful to assist people who have been unemployed for 18 months or more. This credit would build on funding received under the Skills and Science Fund which targets Lone Parents and those on New Deal 25+ enabling a credit of up to £40 per week for those earning less than £15,000 per annum to ease the transition back to work.

Conclusion

22. A well-educated, skilled workforce is essential for economic success.

23. DEL's Skills Strategy puts in place a framework to enhance the provision of learning and skills and, in particular, the essential skills of literacy and numeracy, the employability skills of teamwork and flexibility and the occupational skills needed by specific industries. We have in place a programme to implement the most important elements of the strategy but there is more to do.

24. DEL has an important role to play but we must continue to work holistically across Government to achieve maximum impact. In particular, we must co-operate with the Department of Education on the 14-19 agenda; with the Department of Enterprise Trade and Investment on R&D and to ensure that the providers of education and training are responsive to the needs of employers; and, with the Department of Social Development on the delivery of the Welfare Reform Agenda addressing specifically the barriers to employment.

25. Looking forward to a more constrained period for public expenditure it is clear that it will be difficult to deliver the Skills Strategy to achieve its full potential. Driving the engine of economic growth will be important to underpin and deliver 'The Peace Divident'.

Moy Park

Subgroup to Consider Economic Challenges Facing Northern Ireland

To identify the major impediments to the development of the economy in Northern Ireland

Education – The Need for a Skilled Workforce

- The challenges facing the N.I. education system are well documented, but proposed solutions not universally agreed.
- What the economy and our business require is a pool of potential employees that are equipped with at least Essential Skills.
- Particular shortages are noted in the engineering and technical professions.
- By way of an example at Moy Park we have put a lot back into the community through our essential skills programme, our NVQ programme, training, and activities with schools.
- One of the special areas we are really proud of is making a difference with our Essential Skills programme. This is an area where we could have ignored the problem, or left it for someone else to fix, but we didn't.
  - Shortly after starting our NVQ programme we identified a need for essential skills training; one of the people on the NVQ programme was not able to answer the questions, not because he did not have the KNOWLEDGE, but because he could not READ the question
  - Moy Park initiated a pilot programme in essential skills
  - This pilot Adult Education programme started in March 1997; 3hrs per week; paid during working hours; careful handling due to stigma surrounding the type of learning; partial funding since June 2000 by DEL (then T&EA); linked with Upper Bann Institute
  - This has grown to a full time programme
- We strongly believe that in a fast-changing, global situation, our workforce must be on a continual learning programme to manage change. In an isolated region of mainland Europe, separated by water, with the large transport costs in and out, that our workforce must be nimble and reactive to speedy changes to survive. This means that our training of our workforce and research and development need to be supported and that public-supported training should not cease on leaving school.

- An example that has been a major success has been the co-operation between the veterinary division of the Dept of Agriculture, the poultry industry, the farming industry along with the feed industry working together as a team and establishing one of the healthiest poultry flock populations of the world. This has been achieved by heat-treating to temperature and time all our feed that is fed to the Moy Park flock that will eliminate all pathogens from the feed and has enabled Moy Park to have one of the lowest levels of salmonella in the world. Just this past few days the commission have issued a directive that every member state must put forward plans to reduce their level of salmonella over the next 5 years. N. Ireland not only from the customers' point of view i.e. the retailers but also many of our competitors world wide are aware of this unique position that the company holds and many visits have been paid to our operations in N. Ireland to see this unique situation. More unique selling positions like the example above, must be found with good R&D by universities and government agencies to ensure N. Ireland plc is on the global map.

Business Costs

Freight

- Both In and Out of N.I. In Moy Park alone our goods out is a cost to the company of £7m per year in comparison to our operations in England. We are employing directly in Northern Ireland in a very strong integration between the poultry farming industry, the feed milling industry and poultry processing, almost 4,000 people, with approx 50% more indirectly employed including ancillary industries, such as packaging, freight, service industries, etc. Not only does this support the processing agri-industry but also keeps together the rural society of Northern Ireland, as the majority of these jobs are outside the greater Belfast area. The agri- industry is the last great industry to survive. Textiles and shipbuilding, the large employers of the 1960s have dramatically downsized and moved their operations to low-cost third world economies. In Northern Ireland we have no real alternatives to agriculture to protect the above rural economy unless help is given to support exports in the global competitive market.
- In Moy Park alone to move goods ex Northern Ireland to the British mainland costs us £7 million per year.
- In Northern Ireland we have invested heavily in plants such as Dungannon and Craigavon which are now global scale.

Energy Costs

- The commodity price rises of recent years are due to global influences which we have no control over. However, there is usually a tax element on what we purchase, including the Climate Change Levy. There should be scope here for flexibility to reduce the burden on business.
- Energy costs have narrowed between mainland England and Northern Ireland but are still approx 20% more expensive than across the water. In our own company this is over £1 million per year of additional cost compared to our operations in England.

Rates

- We accept that we pay our fair share of rates but if we don't have successful and profitable businesses our workforce of approx 6,000 people direct and indirect in Northern Ireland will not be able to pay their taxes and not only that, it will have additional implications for the whole rural economy. We believe strongly that some means of capping the rates such as the good work done by the Northern Ireland Manufacturing Association and the proposed capping at 25% or a maximum of 35% seems fair unless better proposals can be brought to the table such as the more profitable companies paying a higher percentage.

Red Tape

- The N.I. Assembly needs to take care not to inadvertently complicate the administration of business by its actions.
- In all areas, including Government, we need to think of customers first and this means that our costs of running our affairs, whether it be in Government or in Industry, in order to survive in this enlarged community, never mind the global economy, must be competitive.
- We also encourage local politicians to present to the world as quickly as possible that they are now fit to work together as a team and to run the economy for the betterment of all people. The positive news will be one of the best PR exercises and could be a blueprint for the rest of the world to see. This in itself will be a major plus for industry as well as all residents in the country.
- Within Industry we also have issues with Government of gold-plating and additional costs being incurred, such as the latest IPPC proposal on auditing of our farms & businesses which could be audited at a fraction of the cost by independent approved audit companies, and not government departments.

Definition of Fresh Affecting European Poultry Sector

- With regard to passing off frozen product as fresh, we strongly support the right of the consumer to buy fresh products. Fresh should mean fresh. There is currently underway in Brussels a review of the definition of fresh and we would strongly urge that the Government actively supports honest labelling offering the consumer the right to choose.
- The food industry and the consumers and retailers have achieved over this past number of years an understanding that fresh product, whether it be fruit, or meat, is best, and premiums were paid accordingly. The consumer does and continues to have the choice of buying frozen product, both locally produced and purchased on a global scale, at lower cost, but the preference is for, and shows continual growth, fresh product. A new trend has emerged this past few years of companies sourcing globally frozen raw material, either in raw form, or in cooked form, importing into Europe, defrosting and distributing to the retailers which is sold in the chill cabinet but not labelled as fresh, but sold under the guise of fresh.

- The integrated poultry processors of Europe which consume 20% of all cereals produced in Europe provide in excess of 500,000 jobs in the agri sector alone have been debating with DG Sanco and DG VI on this matter for 2 years and up to the moment have been unsuccessful in having product clearly identified by labelling. In a global market, these frozen products are produced not to the same standard as European product. The workforce that produce the products have totally different labour rates, social service conditions, feeding regimes that are different for the stock concerned and are supported in many various ways, for example, the US with its Food Aid Export Plan. These large exporting countries, such as Brazil or Thailand, and this also includes the US, do not allow poultry meat imports into their own countries to protect their own trade and are all in excess of 100% self-sufficiency. The UK, for example, is now down to approx 75% self-sufficiency in poultry meat. We believe also a similar trend in other meats exists.
- Europe and the UK as part of Europe must have a clear strategy about food production sustainability and we see no clear direction from Government as to their strategy over the next number of years, except importing goods from these third world economies at low price to protect inflation. We need clear direction from Government if this is their policy and then international industrialists can invest accordingly as our holding company does have operations in 60 countries around the world.

To consider fiscal incentives that may promote foreign direct investment and indigenous investment

Processing and Marketing Grant

- It is described as "The Scheme is designed to improve the economic performance and international competitiveness of the food processing sector."
- The EU Agricultural Processing and Marketing Grant Scheme has now closed. A suitable replacement for this scheme should be found to encourage future investment.
- This type of financial aid has helped Moy Park remain in Northern Ireland and has allowed the company to build large international scale plants and allowed us to grow our workforce over the past 40 years. If this type of aid ceases, why would any right-minded investor, who has to import raw materials, and export finished product, want to invest in the intensive sector in this part of the world?

Invest NI

- "In the year to 31 March 2005, Invest NI committed a total of £132 million (2004: £123 million) to client companies based on 3,704 (2004: 3,224) direct offers, most of which will be paid over future years."[1]

1 *Annual Report and Accounts 2004-05, Invest Northern Ireland, p.70*

- This type of support cannot be taken out of the economy or it will speed up the continual decline in the manufacturing sector, with all the additional challenges as already discussed.
- We have received in Government assistance over the past 10 years £17 million but the company has spent, of its own money, over £100 million which has been to the benefit of all of the rural community and workforce.

To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered

- If we can have a strong manufacturing base, which has now declined to 20% of the total workforce, with good educational training and a strong research and development programme, supported by the measures already discussed, we feel strongly that Northern Ireland's workforce and management skills can compete successfully internationally, with a good service and good local Government with a willingness to work together to put Northern Ireland plc in the Premier League.
- The CBI, Ulster Farmers' Union and NI Manufacturers' Association all have published reports and we support the initiatives that they are also working on.

3/8/06

Ulster Farmers Union

Ulster Farmers Union

Northern Ireland Assembly
Economic Sub Group
Presentation

- Introduction
- Major Impediments
- Investment/ Fiscal Incentives
- Economic Regeneration

Introduction

- Agriculture and Agri food sector's place in the NI economy
- Total output
  - over £1 billion from agriculture
  - in excess of £2.3 billion from the agri food sector
- 80,000 people directly employed in agriculture and agri food sectors

- Explode the myth of a "sunset industry"
  - Natural competitive advantage
  - Security of supply
  - Innovative and flexible by nature
  - Management of natural environment
  - Potential to contribute to future agendas environmental, climate change, etc.
  - Sustainable rural communities

Major Impediments

- Lack of profitability in the sector.
  - **Structure of the industry**
  - **Supply chain**
- Lack of vision
  - **Strategic Support**
  - **Effective Political Representation**
- Regulation
  - **Stifles competitiveness and innovation**

Investment/Fiscal Incentives

- Focus on indigenous investment
- Fiscal incentives
  - **Corporation tax, rating policy, etc.**
- Industry restructuring
  - **Processing sector**
  - **Primary production sector**

Economic Regeneration

- Food production
- Foresight work
  - **Research and Development**
  - **Animal/Plant health**
  - **Genetics**
- Renewable energies
- Waste management

Wrightbus Ltd

Sub-Group on Economic Challenges Facing Northern Ireland

Presentation by Mr William Wright,
Chairman of The Wright Group

8th August 2006

Main Headings of Presentation:

1. Has the education system failed industry and commerce?
   Will the proposed education system be any improvement?

2. Fiscal incentives, rating, energy costs, planning, foreign investment and indigenous investment.

3. Licensing, corporation tax, banks and sources of finance.

Department of Finance and Personnel

Assembly Sub-Group on Economic Challenges

Department of Finance and Personnel

8 August 2006

Bruce Robinson
Permanent Secretary

Department of Finance and Personnel

1

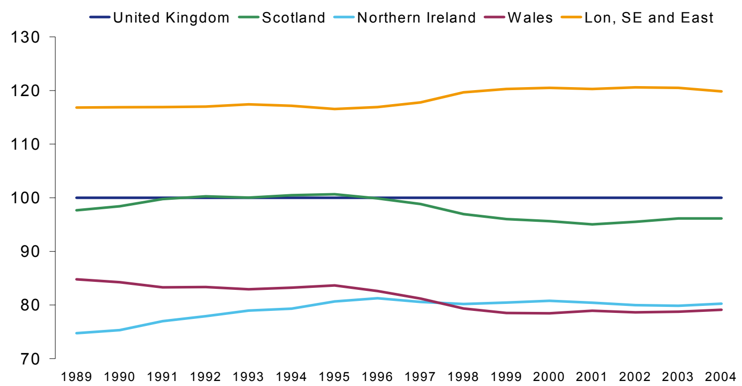
Terms of Reference

1. Identify the major impediments to the development of the Northern Ireland economy.
2. Consider fiscal incentives to promote FDI and indigenous investment.
3. Consider how an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.

2

NI Economy – Recent Developments

GVA Per Capita (UK=100)



3

NI Economy - Recent Developments

- Convergence in GVA per head compared to the UK has largely been driven by strong and sustained employment growth:

Labour Market Indicators	**NI**	**UK**
Employment growth 1996 - 2006	15.7%	11.2%
Unemployment rate 1996	9.4%	8.1%
Unemployment rate 2006	4.5%	5.4%

4

Major Impediments - Overview

- Low productivity – GVA per hour worked is around 15% lower than the UK average.
- Employment Structure – low proportion employed in high value added sectors (such as more specialised business and finance services).
- Current performance on the 4 productivity drivers - enterprise, innovation, skills and infrastructure.
- High economic inactivity – NI has the highest level of economic inactivity within the UK.
- The NI economy is heavily dependent on public expenditure.
- There is widespread acceptance that no single 'magic bullet' will address the deep-seated structural economic problems in Northern Ireland.

5

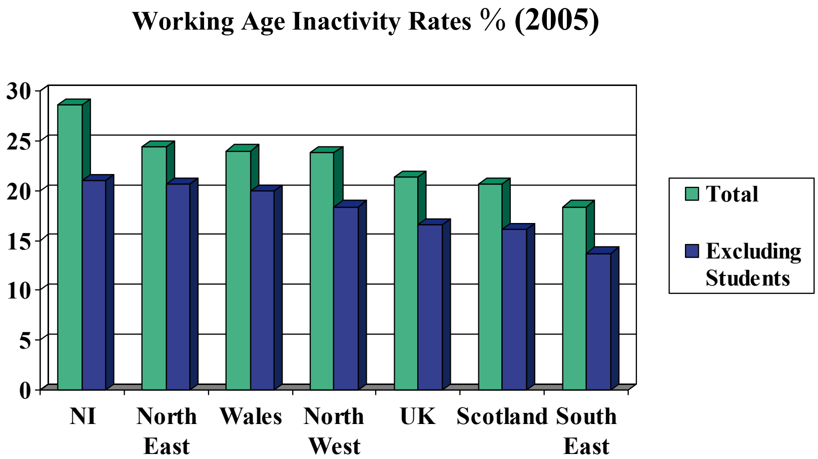
Major Impediments – 4 Drivers of Productivity

Performance on each productivity driver:	**NI**	**UK**
VAT registrations per 10,000 adults (2004)	31	38
BERD* as a % of GVA (2003)	0.53%	1.40%
% of economically active adults with at least a degree (2004)	29.5%	30.8%
% of the workforce with no qualifications (2004)	22.4%	13.7%
Motorway density Km/Sq Km (%)	0.84	1.52(GB)

*BERD: Business Expenditure on R&D

6

Major Impediments - Inactivity



7

Major Impediments – Public Sector Dependence

- The NI economy relies heavily on the public sector:

Public Sector dependence Indicator	NI	UK
Public sector employment as a % of total employment (2006)	32%	20%
Total identifiable public spend per head, indexed (2005/06)	130	100
Total identifiable public spend as a % of GVA (2004/05)	62%	38%

8

Economic Development Policy – Current Thinking

(a) Economic Vision and draft Regional Economic Strategy:
- Centred on the four drivers of productivity.
- Public sector dependence – need to rebalance the local economy.

(a) Economic incentives – Nationally determined fiscal incentives.

9

Fiscal Policy - Overview

- Fiscal policy is a Reserved Matter and therefore for HM Treasury to determine.
- The current policy is that the tax regime is applied without differentiation across the UK.
- Calls for a more favourable corporation tax rate need to take account of our interaction with the rest of the UK.

10

Fiscal Policy – Corporation Tax

- Calls for a lower corporation tax in Northern Ireland often focus on the headline differential with the ROI (UK: 30%; ROI: 12.5%).
- However, the appropriate comparison is effective corporation tax rates, which reduces the differential considerably (UK: 21.7%; ROI: 13.7%).*
- SMEs in Northern Ireland (which represents the majority of firms) already enjoy a low corporation tax rate (19%)**.

*Source: CD Howe Institute, 2005.

**Source: ONS

11

Economic Package/Peace Dividend

- DFP would envisage that any proposed package will be consistent with the overarching national fiscal policy framework.
- An economic package would be expected to address the four drivers of productivity (enterprise, innovation, skills and infrastructure) as outlined in the ‘Economic Vision’ and draft Regional Economic Strategy.
- DFP would envisage the package contributing to rebalancing the local economy.
- Importantly, special consideration should be given to initiatives that deliver durable benefits to the Northern Ireland economy.

12

Economic Package/Peace Dividend

- Government is likely to consider a request for an economic package in the context of the Northern Ireland annual fiscal deficit (exceeding £6bn).
- Therefore, the case could usefully be made with reference to the major public sector reforms currently underway in Northern Ireland (RPA, Water Reform, Rating Reform, Fit For Purpose, FE Means Business, Curriculum Reform).
- This will illustrate that we are pro-actively targeting our public sector dependence and making public service delivery more streamlined and efficient.
- The CSR will provide the opportunity to consider economic priorities along with other key spending areas and to reallocate funding in line with revised priorities.

13

N.I. Tourist Board

tourism in Northern Ireland

a strategic framework for action 2004 - 2007

Northern Ireland Tourist Board

www.nitb.com

minister's foreword

Ian Pearson MP, Minister with responsibility for Enterprise, Trade and Investment

Tourism has the capacity to become a key sector in the transformation of Northern Ireland and to contribute significantly to economic growth. This will only happen if we develop and market a world class visitor experience, continually strive to provide a high quality and competitive product and do so in a sustainable way.

Over the past five years, the number of overseas visitors to Northern Ireland has grown at almost three times the rate experienced by our near neighbours in the Republic of Ireland. We are starting from a lower base but I am optimistic that this growth trend will continue and that tourism will take its rightful place as a significant economic driver for Northern Ireland over the coming years. An equally important growth area is our domestic market, encouraging more people from Northern Ireland to take holidays and leisure breaks at home.

We cannot underestimate the challenge associated with convincing more visitors to come here, making sure that they enjoy a world class experience once they arrive and that they become lifelong ambassadors for what Northern Ireland has to offer. At the core of this strategic framework is the importance of working together – as an industry and as government – focusing on delivery.

We live in a new Northern Ireland. There is now a unique and timely opportunity for tourism to take a lead as we go forward. This strategic framework is a significant first step and I commend it to you.

"we live in a new Northern Ireland..."

1

chief executives' foreword

Alan Clarke, Chief Executive, Northern Ireland Tourist Board

In fulfilment of its role as the lead body for tourism in Northern Ireland, the Northern Ireland Tourist Board has prepared this strategic framework for action. The framework deliberately concentrates on identifying the most effective response to the challenge of attracting visitors, increasing the competitiveness of tourism businesses and stimulating effective communication with our industry partners.

While NITB has led the preparation of the strategic framework, it is intended for all of those involved in the business of tourism whose contribution is so critical to success. The deliberate emphasis on priorities will ensure that our collective energy is focused to maximum effect and that full advantage is taken of the opportunity presented.

Paul O'Toole, Chief Executive, Tourism Ireland

Tourism Ireland believes wholeheartedly in the potential of Northern Ireland. Tourism in Northern Ireland is now at a crossroads, with the unique opportunity to map out a new vision for itself, an opportunity to bring together all the required stakeholders to turn that vision into reality, and an opportunity to promote that new reality overseas in a way that was never possible before.

Tourism Ireland looks forward to contributing fully to this process at each step of the way.

2

tourism in northern ireland - a strategic framework for action 2004 — 2007

Where we are today

In 2002 tourism contributed £395m to the Northern Ireland economy, of which £274m was spent by visitors and £121m by people from Northern Ireland who took their holidays at home. Tourism supports around 20,000 full-time equivalent jobs. The sector represents approximately 2% of GDP.

Our Tourism Challenge

The challenge for tourism in Northern Ireland is to attract more visitors and then make their stay memorable so that they are encouraged to return and to recommend Northern Ireland. It is also important to encourage people from Northern Ireland to take holidays and leisure breaks at home.

Our Objectives

In line with NITB's Corporate Plan, the strategic framework's target is to increase visitor tourism revenue by 9% every year, visitor numbers by 7% and to increase Northern Ireland's share of visitors to the island of Ireland. The framework sets out the steps needed to address this challenge. It will deliver improvements in tourism performance across three key objectives of Attracting Visitors, Business Enhancement and Communicating Effectively.

Our Principles

The strategic framework provides guidance on the development of tourism over the next three years. In adopting a sustainable approach it seeks to strike a balance between economic growth, impact on the environment and community support. The approach is customer focused and market driven in that it recognises the need for high quality, excellence and a personal approach in everything we do. Success will depend on everyone involved in tourism working together, focusing and resourcing efforts and measuring results. The outcome will be a balanced business strategy.

Action Programmes

The strategic framework will be delivered through ten programme areas – four relating to attracting visitors, four relating to business enhancement and two relating to communication. Each programme area will be supported by a range of action plans designed to deliver on the targets for growth. Each programme area will be measured and a mechanism to ensure implementation will be established by NITB.

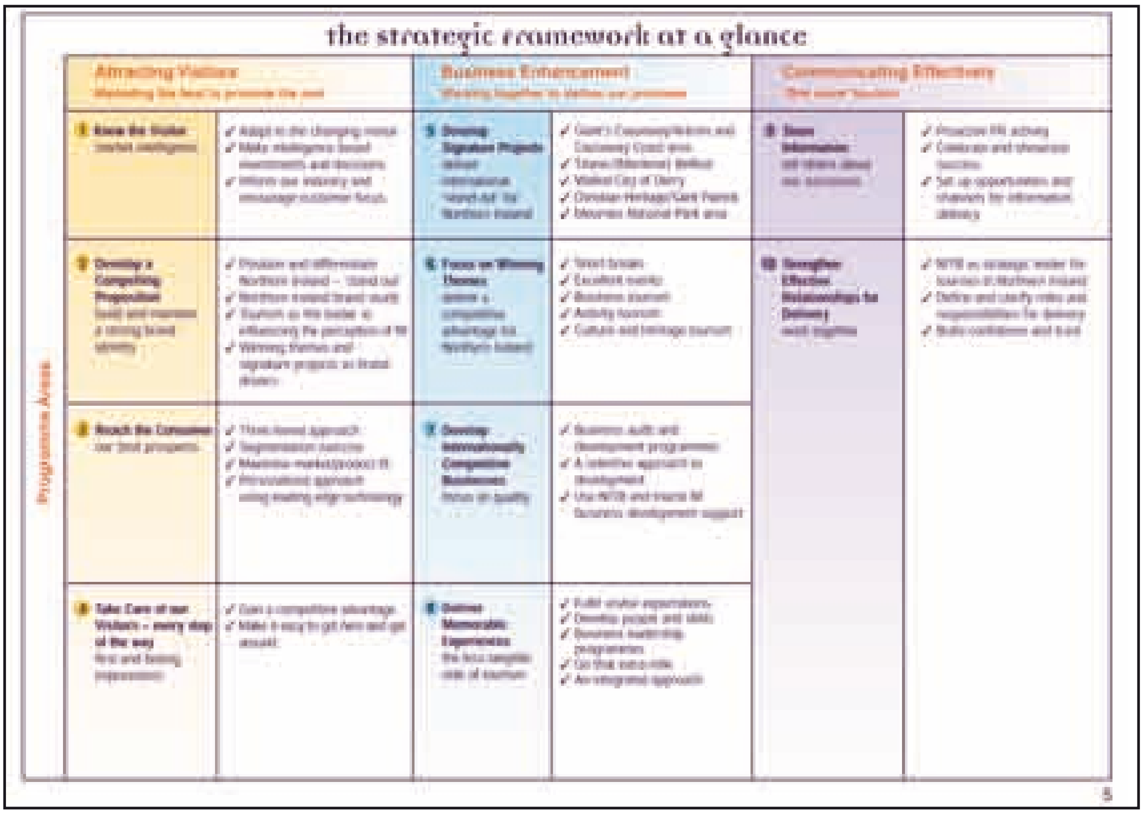
New working arrangements will mean that actions are carried out by those best placed to deliver - centrally, regionally and locally. Action programmes will run from April 2004 until March 2007.

Making it Happen

This framework will require commitment across the public and the private sectors, both centrally and regionally. As the strategic leader for tourism in Northern Ireland, this will mean a new focus for NITB as catalyst, co-ordinator and facilitator, properly resourced and skilled.

3


"... a world class visitor experience"
4


the strategic framework at a glance
5

Attracting Visitors	Marketing the best to promote the rest
Why?	**What needs to be done?**
1 Know the Visitor Good **market intelligence** appropriately interpreted and disseminated will enable the industry to target its efforts and resources at those segments that have the greatest ability to maximise tourism revenue and potential from all of our key markets. **Our key partners in delivery will be Tourism Ireland, VisitBritain and regional tourism partnerships (to include key stakeholders for the delivery of tourism programmes)**	✓ **Adapt to the changing visitor** Northern Ireland is a changing destination, how is the profile of our visitors changing? Increasing trend towards shorter breaks taken more often; increase in the time constrained consumer; increase in the older (over 55s) consumer; changes in lifestyle; changes in purchasing behaviour; a greater interest in the environment. ✓ **Make intelligence based investments and decisions** Match marketing and development to customer requirements (current and future). ✓ **Inform our industry and encourage customer focus** Effective marketing is underpinned by good market intelligence. We need to provide the industry with more timely and more relevant information and tools for their planning.
2 Develop a Compelling Proposition **build and maintain a strong brand identity** A strong and clear brand, reinforced by the use of common messages and images will enable the industry to adopt a more consistent approach. **Our key partner in delivery will be Tourism Ireland**	✓ **Position and differentiate Northern Ireland** If we are to achieve 'stand out' for Northern Ireland and maximise our competitive advantage, we need to be conscious of how we portray ourselves. We need to take proactive measures to improve our image at home and abroad. ✓ **Northern Ireland brand study** Identify our key attributes, strengths, weaknesses and unique assets. ✓ **Tourism as the leader in influencing the perception of Northern Ireland** Use success stories in tourism to build reputation, ownership and pride/proactively use events and journalist visits. ✓ **Winning themes and signature projects as brand drivers** Develop and market distinctive Northern Ireland products.

6

Attracting Visitors	Marketing the best to promote the rest
Why?	**What needs to be done?**
3 Reach the Consumer We must convert **our best prospects** in the marketplace into visitors on the ground. We must ensure that we use the right tools to target the right people, in the right way, in the right place and at the right time. A three tiered approach will provide us with a framework to focus our marketing efforts and resources. **Our key partners in delivery will be Tourism Ireland in overseas markets and regional tourism partnerships**	✓ **Three tiered approach to realise the potential of our 'best fit' target markets:** **Tier 1** Our domestic and closer to home markets, specific overseas segments already delivering results (including VFR), as well as those with direct access **Tier 2** Segments that match with our internationally competitive products, for example current focus includes Sweden and golf; Germany and cruising; France and angling; Italy and English as a foreign language **Tier 3** Maximising the potential of key emerging segments in international markets (future tier 1 and 2 markets) ✓ **Segmentation exercise** Use information on where our target consumers are in the decision-making process to guide marketing tactics for each tier. ✓ **Maximise market/product fit with compelling campaigns and clever packaging** Work with Tourism Ireland and VisitBritain to make the most of what we have now and to plan for best fit in the future. ✓ **Personalised approach using leading edge technology** • Product database (content, distribution and key links) • Customer database and Customer Relationship Management
4 Take Care of our Visitors – every step of the way We must ensure positive **first and lasting impressions**, aiming to exceed visitor expectations. We need to make it easy for our visitors, from the first point of contact onwards. **Our key partners in delivery will be DETI, DRD and regional tourism partnerships**	✓ **Gain a competitive advantage through:** • Vital impressions and welcome on arrival • Visitor information – content, availability and dissemination • Visitor servicing – high quality and leading edge • Deliver a memorable experience worth paying for ✓ **Make it easy to get here and get around – international access and integrated transport** • Access and transport – it is essential that direct access into NI is increased and improvement made to transport linkages • Booking mechanisms – easy and accessible • Signage – a customer focused approach

7

Business Enhancement	Working together to deliver our promises
Why?	**What needs to be done?**
5 Develop Signature Projects [illegible] **Our key partners in delivery will be stakeholders with relevant expertise and experience for each signature project**	**A number of best prospect signature projects have been identified for progress in the short to medium term:** ✓ Giant's Causeway/Antrim and Causeway Coast area ✓ Titanic (Maritime)/Belfast ✓ The Walled City of Derry ✓ Christian Heritage/Saint Patrick ✓ Mournes National Park area **We will seek to promote the identification of additional signature projects as longer term opportunities.**
6 Focus on Winning Themes Winning themes are those with potential to help deliver a **competitive advantage** for Northern Ireland. [illegible] **Our key partners in delivery will be stakeholders with relevant expertise and experience for each winning theme**	✓ **Short breaks** [illegible] ✓ **Excellent events** [illegible] ✓ **Business tourism** [illegible] ✓ **Activity tourism** [illegible] ✓ **Culture and heritage tourism** [illegible]

8

Business Enhancement	Working together to deliver our promises
Why?	**What needs to be done?**
7 Develop Internationally Competitive Businesses [illegible] **Our key partners in delivery will be Invest NI, DEL, DCAL, NITIC and TTT**	✓ **Business audit and development programmes** We need to use a selective approach to develop international competitiveness. **Short term** [illegible] **Medium term** [illegible] **Long term** [illegible] ✓ **Use NITB and Invest NI business development support** [illegible]
8 Deliver Memorable Experiences We need to recognise and develop the **less tangible side of tourism**, with an emphasis on people qualities as a source of added value. [illegible] **Our key partners in delivery will be Invest NI, DEL, TTT and NITIC, as well as Northern Ireland media**	✓ **Fulfil visitor expectations by ensuring the experience is:** • Imaginatively packaged • Customer focused • Worth paying for ✓ **Nurture people and skills** [illegible] ✓ **Business Leadership Programmes** [illegible] ✓ **Go that extra mile** [illegible] ✓ **An integrated approach** Align hospitality and tourism training with business needs.

9

Communicating Effectively	'One voice' tourism
Why?	**What needs to be done?**
9 Share Information We need to find new ways to **tell others about our successes** **Our key partners in delivery will be regional tourism partnerships**	✓ **Proactive PR activity** to communicate our achievements and highlight tourism heroes ✓ **Celebrate and showcase success** tourism and business awards to acknowledge and promote best practice ✓ **Set up opportunities and channels for information delivery** • stakeholder survey to establish models of best practice • encourage networking amongst those involved in the industry
10 Strengthen Effective Relationships for Delivery To ensure the success of this strategy key stakeholders need to **work together** to determine who is best placed to deliver. Our focus should be on more effective ways of working, to maximise impact and reduce duplication; sharing responsibility in order to share success. **Our key partners in delivery will be DETI and regional tourism partnerships**	✓ **NITB as the strategic leader for tourism in Northern Ireland** • Work together (centrally and regionally) to align policies and marshal resources with action programmes. For example funding will only be given where there is a good strategic fit • Develop a more focused and integrated framework for regional and local delivery • Develop public and private partnerships to deliver winning themes and signature projects ✓ **Delivery** Define and clarify roles and responsibilities ✓ **Build confidence and trust** A healthy flow of information to key community and media contacts from whom we need buy in [illegible] including launch and update events

10

acknowledgements

This strategic framework for action is the outcome of a sustained period of consultation with our colleagues in the industry, our strategic partners, and a range of stakeholders. The Northern Ireland Tourist Board is grateful to all those who invested their time, effort and knowledge in its development.

A special word of thanks goes to the members of the Industry Steering Group whose individual expertise, wisdom and experience contributed so much to the development of the framework.

We would like to hear from you!

Please give us your comments on our proposed way forward. Use the method of your choice to get in touch with Stephen Bill at NITB by 22 December 2003.

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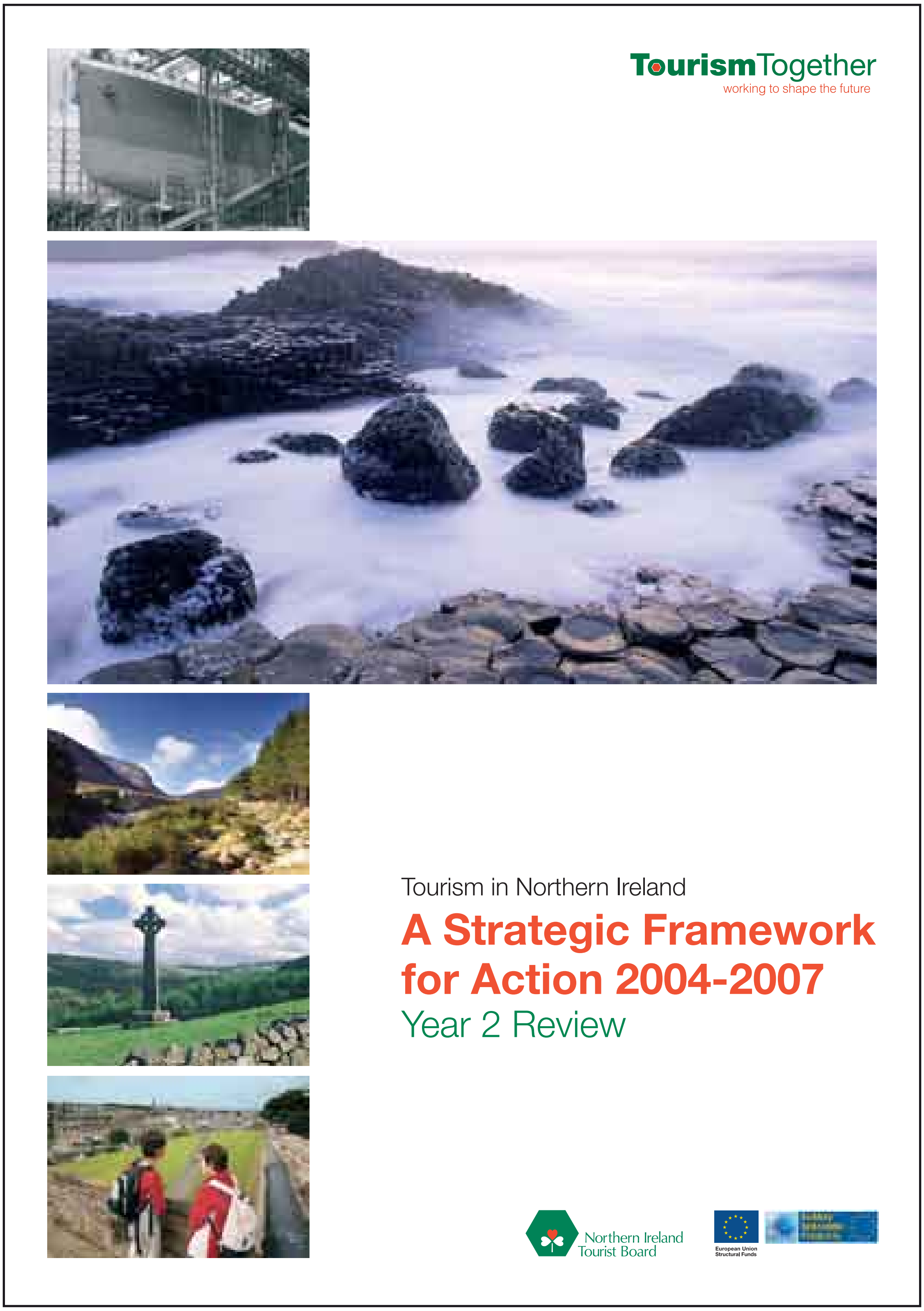
Building Sustainable Prosperity

Northern Ireland Tourist Board


TourismTogether
working to shape the future

Tourism in Northern Ireland

A Strategic Framework for Action 2004-2007

Year 2 Review

Northern Ireland Tourist Board

European Union Structural Funds

Foreword

A message from Alan Clarke, Chief Executive, Northern Ireland Tourist Board

In 2004, following extensive consultation with key stakeholders from across the tourism industry, NITB launched Tourism in Northern Ireland: A Strategic Framework for Action 2004 - 2007.

The Framework provides a blueprint for tourism in the years ahead, and was produced in a period of strong growth. It concentrates on identifying the most effective response to the challenge of attracting visitors, increasing the competitiveness of tourism businesses and stimulating effective communication between all industry partners. It also aims to strike a balance between economic growth, impact on the environment and community support and is customer-focused and market-driven. It is delivered through ten Action Programmes – four relating to attracting visitors, four relating to business enhancement and two relating to communication.

Year 1 saw considerable progress in putting the foundations for the Framework in place, and during Year 2 we have seen further developments across the ten Action Programmes with strong progress across the five Signature Projects. Highlights during 2005-2006 are detailed over the following pages.

2005 has also been a strong year for Northern Ireland tourism performance, with visitor and domestic revenue in excess of £0.5 billion and visitor nights nudging towards 10 million. We have seen significant increases in visitor numbers from all markets, with the exception of Great Britain. The softening in demand from the British market can be attributed to a number of factors including increasing competition from emerging Eastern European destinations and the loss of the SeaCat route in late 2004. The performances of Europe and North America have benefited from new direct air services which received Air Route Development support, with increases in visitors of 32% and 20% respectively.

Tourism is now a key driver of Northern Ireland's economic development, and is fundamentally important to the Government's economic vision. It is only through capitalising on the strategic relationships with Tourism Ireland, the Regional Tourism Partnerships and cross governmental stakeholders that Northern Ireland tourism can ensure its long term viability and economic sustainability. The Strategic Framework for Action and our current Corporate Plan will help consolidate the economic importance of Northern Ireland tourism in the years ahead and ensure that Northern Ireland tourism maximises its potential.

Alan Clarke

Alan Clarke
Chief Executive

The following contains some of the highlights of Year 2 under the Strategic Framework for Action.
For a full report and an account of work in progress, please contact NITB's Policy and Business Planning Unit.

1

Attracting Visitors

1. Know the Visitor

Good market intelligence appropriately interpreted and disseminated will enable the industry to target its efforts and resources at those segments that have the greatest ability to maximise tourism revenue and potential from all our key markets.

- 'Headlines', a fortnightly roundup of what's happening in the tourism industry both in Northern Ireland and worldwide issued to the industry
- NITB's 'Fact-Finder', containing information on our 'best prospect' customers now covers 17 main markets
- Quarterly Winning Themes competitor analysis delivered through **nitb.com**
- Five regional workshops were held to roll out 2006 Marketing Plan
- Business Tourism Visitor Attitudes Survey commenced
- Tourism Statistics Review completed
- Marketing Plan 2006 published identifying best prospects
- Economic Impact Study due for completion autumn 2006

2. Develop a Compelling Proposition

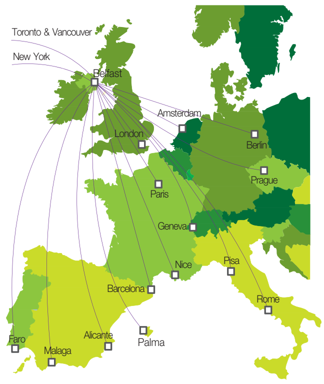
A strong and clear brand, reinforced by the use of common messages and images will enable the industry to adopt a more consistent approach.

- A brand strategy has commenced for Northern Ireland tourism and also the Walled City of Derry and Giant's Causeway/Antrim and Causeway Coast area Signature Projects
- Brand strategies and creative concepts, market-tested in Great Britain and the Republic of Ireland, were communicated to stakeholders through a series of presentations and face-to-face meetings
- Tourism Ireland's brand strategy rolled out in key markets around the globe

3. Reach the Consumer

We must convert our best prospects in the marketplace into visitors on the ground. We must ensure that we use the right tools to target the right people, in the right way, in the right place and at the right time.

- Air Route Performance: 14 direct scheduled international air services to Belfast. Inbound load factors particularly strong on Paris and Newark services
- New redesigned website **discovernorthernireland.com** launched
- Interactive websites for CS Lewis Narnia promotion and Short Breaks campaigns, featuring downloadable brochures and competitions
- Comprehensive range of new product and accommodation guides published
- Global media coverage worth £13.6 million obtained for £100,000 spend
- 125 international best prospect buyers from 18 markets attended 2005 workshop. Generated in excess of 4,500 sales appointments
- NorseMerchant (now Norfolkline) chartered 2 additional ships, the Lagan Viking and the Mersey Viking



4. Take Care of our Visitors – Every Step of the Way

We must ensure positive first and lasting impressions, aiming to exceed visitor expectations. We need to make it easy for our visitors from the first point of contact.

- TIC network received 1.2 million enquiries during the year
- Enhanced tourist information and visitor welcome facilities opened at Belfast International Airport
- 'Gateway' role of Belfast and Northern Ireland Welcome Centre enhanced through improved information and visitor handling
- NITB Visitor Servicing Conference held to highlight the importance of meeting customer expectations across Northern Ireland's tourism industry
- Regional tourism signage audit completed

2

Business Enhancement

5. Develop Signature Projects

Signature Projects have been identified for their potential to deliver world-class excellence, drawing visitors from home and overseas. In achieving international 'stand-out' the projects will have a significant impact on Northern Ireland's tourism performance.

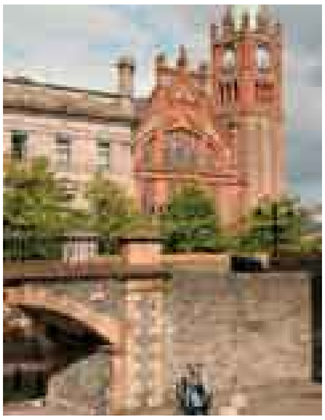
Giant's Causeway/Antrim and Causeway Coast area

- Heneghan Peng Architects & Land Design Studio appointed following international competition
- Interpretation Strategy complete for World Heritage Site at Giant's Causeway
- Causeway Coastal Route signage scheme being installed
- Giant's Causeway Visitor Facilities Ltd established in 2005
- Coastal Moorings Study and Rathlin Sustainable Tourism Strategy complete
- Rathlin Sustainable Tourism Strategy complete
- Second Masterplan Stakeholder Forum held

Titanic (Maritime)/Belfast

- NITB and Belfast City Council Vision Study for iconic attraction completed June 2005
- Three phase approach adopted for Signature Project – 1. Thompson Dock; 2. Harland and Wolff Building; 3. Iconic attraction
- NITB has ring-fenced funding for Phase 1 which includes restoration of Pump House & Thompson Dock and visitor interpretation
- Details of Phase 3 new iconic project launched by Titanic Quarter Limited
- Titanic Alliance of key partners established by DETI to drive project forward
- Big Lottery Living Landmarks application submitted for Phase 3 of project

TITANIC 2012



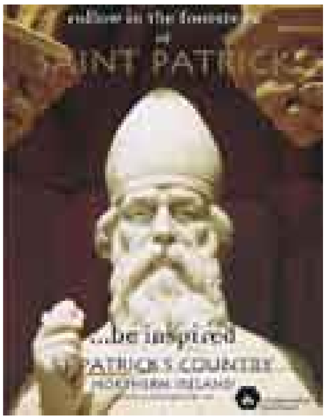
The Walled City of Derry

- Signature project branding exercise commenced
- Armada Exhibition opened, Tower Museum building renovations completed and education materials produced
- Visitor orientation plan for Walled City, and Concept & Design Toolkit completed
- Lighting design company appointed to carry out the Walled City Lighting Scheme, with initial draft lighting strategy produced
- Architect appointed to produce conservation plan. Work underway on management plan for project
- £9.2 milliion funding secured

3

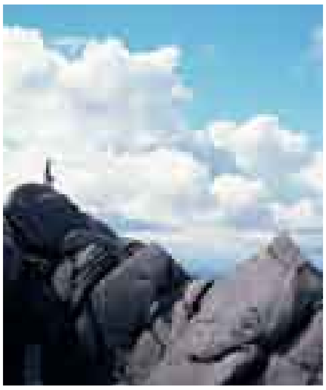
Christian Heritage/Saint Patrick

- Three-year action programme launched
- Feasibility study for Saint Patrick's Trail completed with three options identified
- All-Ireland marketing and promotional collateral produced by NITB in association with Fáilte Ireland
- Significant media and PR focus around St Patrick's Day events in Downpatrick and Armagh



Mournes National Park area

- Tourism Economic Impact Study of Mournes - current and future potential.
- Mourne Heritage Trust run first ever Sustainable Tourism Conference
- Mournes National Park Boundary Study
- Work commenced on Newcastle Promenade streetscaping
- £5.2 million investment in Newcastle promenade led by Down District Council in conjunction with DSD



6. Focus on Winning Themes

Winning themes are those with potential to help deliver a competitive advantage for Northern Ireland.

Business Tourism

- IFI funded Conference Support Programme -16 conferences approved, 3 pending approval. These include World Toilet Summit and Irish Congress of Trade Unions Conference. Total estimated bednights 60,500; total economic benefit £10 million
- Business Tourism Action Plan launched - June 2005
- Best practice Business Tourism Masterclass held with over 50 industry participants.
- Business Tourism "extender" brochure launched, and sample itinerary brochures produced for business tourism buyers
- Business Tourism Product Development Group (BTPDG) established
- Major international familiarisation trips included welcoming 150 French buyers in association with Air Partner, and 60 European buyers through partnership with Visit London

Short Breaks

- Autumn campaign generated 50,000 responses, with return on investment rate of £1:£6.57
- Redesigned and re-launched Short Break Spring campaign including newspaper, radio and outdoor advertising in NI and ROI and a brochure with a more commercial focus.
- New consumer website with strong industry buy-in to promote dynamic packaging, segmented product offers and incentives to buy
- Tesco promotion - 35,000 Short Break brochures distributed throughout 33 Northern Ireland stores during March
- All-Ireland Daily Mirror promotion
- First ROI Gateway campaign undertaken to promote NI to Republic of Ireland international visitors and local residents Advertising campaign took place at Dublin airport and in Dublin city centre April – June 05. Results were very positive, with excellent levels of advertising recall for NI

Activity Tourism

- Activities Tourism Action Plan completed in May 2005
- Review of Countryside Access & Activity Network completed and Operational Plan launched in February
- New Golf Strategy completed, and communicated via **nitb.com** and Ryder Cup plan agreed and approved by industry. 80,000 consumer golf passes produced in association with Regional Tourism Organisations
- Cycle product group established & packages developed, brochure launched for 2006 season

4

- 2 day cross border Conference on Countryside for Health and Well Being
- Recreational walking plan completed. Walking guide launched
- 3 off-road cycle trails - Gosford, Castlewellan, Castle Archdale
- 4 eco trails launched

Cultural and Heritage Tourism

- Twelve regional workshops took place in April/May 2005 to recruit trade partners for "Be a Tourist at Home" with 300 industry representatives participating and 1,000 toolkits distributed. 10,000 event guides and 160,000 voucher booklets were produced and distributed through TICs and libraries across NI. The campaign generated £265,000 and consumer satisfaction levels were rated at over 95%
- CS Lewis publication was produced. 30 international journalists joined NITB on a media familiarisation trip to coincide with the charity premiere of the Chronicles of Narnia in Belfast

Excellent Events

- IFI support achieved for Event Advisors
- Joint NITB & NIEC Events guides produced
- Northern Ireland Events Company's major achievements include the Special Olympics Ireland Games, Motocross World Championship Grand Prix of Ireland, World Irish Dancing Championships, NW200, Water Ski World Cup and the UEFA Under 19s

7. Develop Internationally Competitive Enterprise

We need to ensure that tourism businesses are capable of competing effectively in the international marketplace. Using models of international best practice with a focus on quality we need to provide strategic advice on prospects for growth, product development and packaging for tourism businesses. These include service and facility or accommodation providers as well as businesses centred around visitor attractions.

- Invest NI made 14 TDS capital project offers, 5 IFI capital project offers, 6 MIS offers and 3 company development project offers to tourism business
- Invest NI also carried out the following; 6 client company business health checks; 86 referrals made for advisory services; marketing development programme commenced with 9 companies; e-business seminars with 45 companies and best practice seminars with 77 participants
- People 1st leading Human Resource Development Strategy for tourism due in December 2006
- Hotel 'learning journey', benchmarking against best in class in Great Britain, delivered with high degree of satisfaction
- Three new Tourism Masterclasses delivered by internationally renowned speakers. Over 90% industry satisfaction from 180 industry attendees

8. Deliver Memorable Experiences

We need to recognise and develop the less tangible side of tourism, with an emphasis on people qualities as a source of added value. This means identifying programmes to enhance hospitality, foster business acumen and encourage professionalism.

- Welcome to Excellence programmes completed by 5000 participants
- Sector Needs Analysis Consultations carried out by People 1st
- TTT addressed 150 teachers at the NI Schools/Colleges Careers Association Conference. Also organised 2 seminars for 100 Careers Advisors
- TTT represented the tourism and hospitality sector on the Council for Curriculum Examination & Assessment (CCEA)
- TTT's Chef Development Programme has been organised
- Blue Badge Tourist Guides training programme undertaken

5

Communication

9. Share Information

We need to find new ways to tell others about our successes.

- Two issues of 'The View' produced
- Corporate and Industry Communications Strategy produced and external PR agency recruited to support implementation
- Proactive communication of key milestones and achievements throughout the industry through Northern Ireland Tourism Awards, press releases and editorial
- NITB Strategic Framework for Action Year 1 Review held. Keynote speaker showcased best practice and international competitiveness
- NITB/Tourism Ireland Marketing Plan launched

10. Strengthen Effective Relationships for Delivery

To ensure the success of this strategy, key stakeholders need to work together to determine who is best placed to deliver. Our focus should be on more effective ways of working, to maximise impact and reduce duplication; sharing responsibility in order to share success.

Regional Delivery via establishment of new Regional Tourism Partnerships (RTPs)

- NITB has ring-fenced £500,000 from core budget for 2006/07 regional delivery
- South East - Strategy, Action Plans and Partnership in place – Armagh and Down Tourism Partnership
- Greater Belfast - Strategy, Action Plans and Partnership in place
- North East - Causeway Master Plan - currently assessing most effective delivery mechanism
- Work ongoing with all stakeholders on way forward and initial work completed on Destination Fermanagh

6

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working to shape the future

You can request further copies and alternative formats of this document from Northern Ireland Tourist Board.

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Northern Ireland
Tourist Board

European Union
Structural Funds


Assembly Sub-Group on the Economic Challenges Facing
Northern Ireland Tourism
Introduction
• Performance
• Key issues
• Concluding remarks
• The challenge is to ensure the development of a long-term sustainable tourism industry in Northern Ireland
1


Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism
Visitors to Northern Ireland (1994-2005)
Visitors
2,200,000
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
1994
1995
1996
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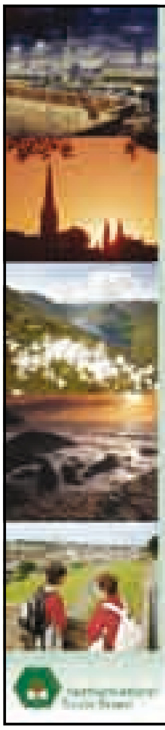
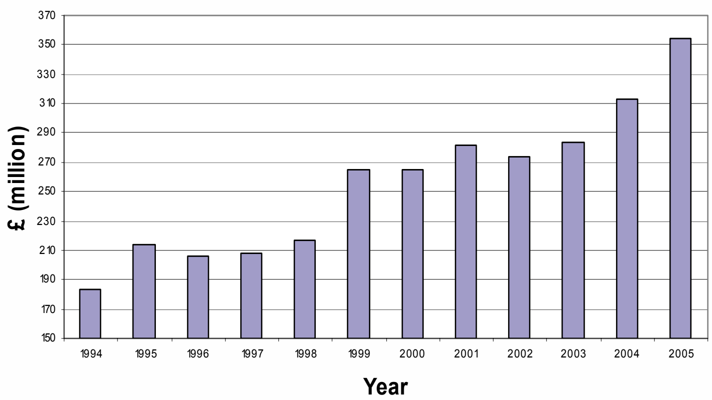
2003
2004
2005
Year
2



Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Visitor Tourism Revenue (1994-2005)



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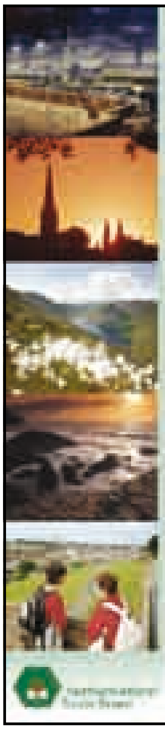
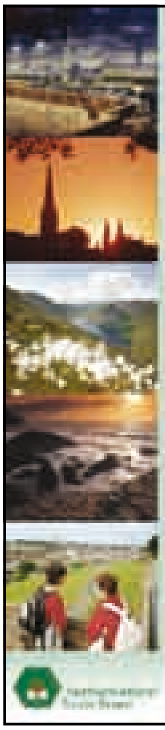


Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Tourism Performance Highlights

• 2005 Visitor Spend	£357m.
• 2005 Domestic Spend	£146m.
• 2005 Total Spend	£503m.
• Total Visits	1.97m.
• Estimated jobs in Tourism and Leisure	51,390

4



Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Key Trends 2004 - 2005

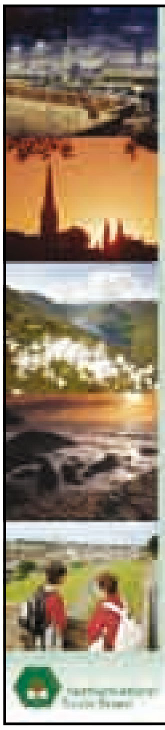
- Markets

GB	-7%
ROI	+6%
Europe	+32%
North America	+20%

- Passenger Carryings

Sea	-11%
Air	+8%

5

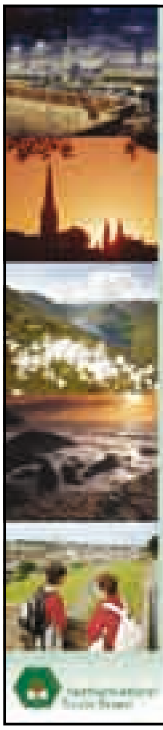


Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Key Trends 2004 - 2005

- Hotel Accommodation
    - 2.0 m. bed spaces sold (+5%)
    - 1.4 m. non-resident bed spaces sold (+13%)
- Record occupancy levels achieved in six of the months in 2005

6



Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Key Trends

- Supply of hotel bedrooms has increased by 68% since 1994 and number of hotel bedrooms sold has increased by 100% over this period
- Profit before tax and funding costs at 19% of revenue is now bettered only by Dublin hotels
- Confidence within the sector is high – many hotels are planning capital investment programmes

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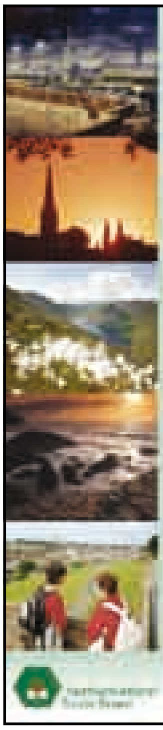

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Key Trends 2004 - 2005

- Guesthouse / B&Bs

  Rooms / bed spaces sold decreased by 8%
- Self Catering

  20,900 weeks sold, a growth of 4% over 2004
- Tourism Barometer 2006

  All accommodation sectors report growth in number of bed nights and improved levels of profitability

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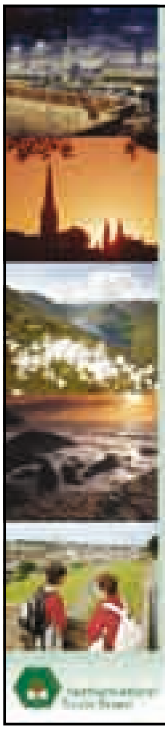

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Key Issues

- Strategic leadership
- Global competitiveness and innovation
- Infrastructure
- Skills
- Differentiation
- Closer to home markets
- Sustainable development

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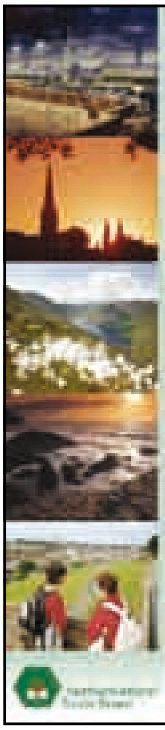

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Strategic Leadership

- Joined up government
- Resourcing
- Planning / sustainability
- Private Sector Engagement
- RPA

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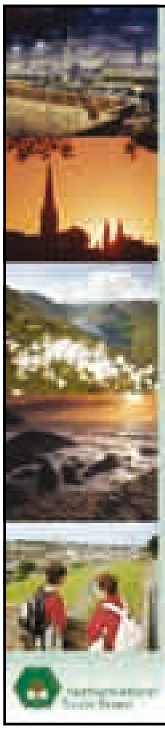

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Tourism

Global competitiveness and innovation

- Visitor choice
- Global thinking
- Tourism specific capability support
- Innovation and packaging

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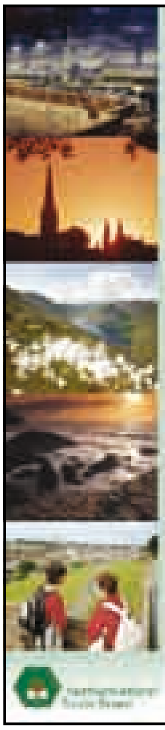

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Tourism

Infrastructure

- Signature Projects
- Access
- Conference / Exhibition facilities
- Golf Resorts

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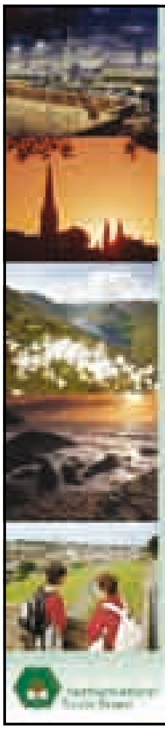

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Skills

- Fragmentation
- Human Resource Development Strategy for the industry

Differentiation

- Positive image internationally
- Move from "discovery destination" to long term brand position
- Island of Ireland "stand-out"

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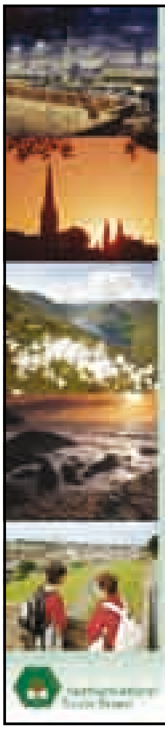

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Closer to home markets

- Softening GB market
- Republic of Ireland market potential

Sustainability

- Authentic distinctive attractors
- Environment as an asset
- Organic growth

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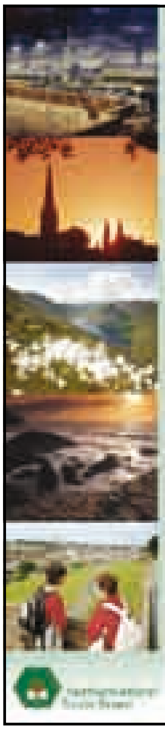

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
Tourism

Concluding Remarks

- Need for long-term vision and investment
- Tourism's role in economic growth
- Programme funding

Project	Spending Need/ Opportunity	Allocated	Shortfall	Comments
Titanic/(Maritime Belfast)	£75-£90m	£1.2m	£75-£90m	Develop iconic tourism based Signature Project on Queen's Island
Giant's Causeway/Antrim & Causeway Coast Area	£69m	£31m* * inc GCVF Ltd Funding	£38m	Complete 10 year Masterplan and implement WHS Management Plan for 'site'
Walled City of Derry	£19.4m	£14.1m	£5.3	Scope and implement Phase 3.of Walled City Project
Christian Heritage/Saint Patrick	£5m	£250k	£4.75m	Develop authentic Saint Patrick's Trail and implement action plan
Mournes National Park Area	£10m	Nil	£10m	Develop 5 year action plan for National Park model and part fund implementation

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Economic Research Institute of Northern Ireland

Written Submission of Evidence on: "The Northern Ireland Economy"

for the

Assembly Sub-Group on the Economic Challenges Facing Northern Ireland
10 August 2006

The Northern Ireland Economy

On the standard measures of economic performance the Northern Ireland economy has scored quite well over the past 15 years.

Growth as measured by Gross Value Added (GVA) per head doubled between 1990 and 2004 compared to an 86 per cent increase on average for the UK as a whole. So some convergence took place, with GVA per capita rising from 74 per cent of the UK average to 81 per cent over this period. However, virtually all of this catch-up has occurred between 1990 and 1996. Since then the gap has remained unchanged.

Employment growth in Northern Ireland has been much more rapid than for the UK as a whole. 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. As a consequence our employment rate – the percentage of the working age population in employment – has risen to 68 per cent. Unfortunately that is still the lowest figure of any region in the UK.

Unemployment as officially measured has ceased to be a major issue for the economy. With a rate around 4.5 per cent Northern Ireland is well below the EU25 average. Even long-term unemployment (those unemployed for a year or more) has declined dramatically and now accounts for less than half the unemployed. Youth unemployment (under 25) is, however, almost three times the overall rate.

Economic inactivity on the other hand has worsened significantly. These are people that are neither working nor actively seeking work. As a percentage of the working age population they account for almost 29 per cent in Northern Ireland compared to an average of 22 per cent for the UK as a whole. Part of the explanation for this is the higher proportion of students in Northern Ireland (almost twice as many proportionately as in the UK). 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.

With the exception of economic inactivity, which clearly needs attention, the casual observer might conclude that these figures paint a relatively benign picture of economic performance in Northern Ireland. That would be a mistake. To see why we need to take a clear look at how the economy actually works.

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. In short the region is running a large and sustained balance of trade deficit with the rest of the world.

Our imports of virtually every commodity and service greatly exceed in value the exports that are supposed to pay for them. In the absence of some mechanism for financing the deficit this is a situation that could not be sustained. We would have to cut back drastically on imports and accept a much lower standard of living to balance the books.

But there is a means of financing the deficit available. This is the public sector or more specifically the fiscal transfers that make up the difference between what Northern Ireland raises in taxes and what it spends on public services.

Although the equivalence is not exact it is broadly the case that the trade deficit is similar to the fiscal deficit, currently about £6 billion per annum that is financed by transfers from the UK Exchequer.

Now it is, of course, the case that virtually every region outside the south east of England enjoys similar support though on nothing like the same scale. But that is not a cause for complacency. On the contrary, we need to ask some very tough questions as to why the market economy in Northern Ireland falls so far short of the output and specifically the net exports that would be required to greatly reduce, if not eliminate, the need for fiscal transfers (and eliminate the trade deficit).

The questions are tougher still if we take as a benchmark not the performance of the UK but of our neighbours in the RoI. This would raise the bar by at least another order of magnitude. In recent years the doubling time for the Irish economy, that is, the time for the economy to literally double in size, has been around a decade. The Northern Ireland doubling time is around 25 years. That is a measure of the challenge.

The key issue is productivity or rather the lack of it in Northern Ireland's performance. To illustrate the point consider the 110,000 jobs created over the last decade. This is a 20 per cent increase in employment, well ahead of the UK average.

But did this new employment create sufficient new output to lower the GVA per capita gap with the UK? Clearly not since the gap actually widened. On average, therefore, the productivity embedded in these new jobs was less than the average productivity for the UK as a whole. Again if we widen the comparison to the RoI the result is even starker since we than face a productivity gap of about 30 per cent per worker.

It is very instructive to consider these facts against the stated objective of the government for Northern Ireland's economic performance. 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".*

On the ground, however, we are largely creating low value added, low wage jobs that are far from the cutting edge of technology.

Such a discrepancy between the stated aims of policy and the reality on the ground is dangerous. Those responsible for policy can become deluded with disastrous consequences for the economy's longer-term prospects.

Why then has productivity and in consequence growth been a recurrent difficulty for the Northern Ireland economy as it has indeed been a problem for peripheral regions virtually everywhere? The problem is multifaceted but from a great deal of work that has been done by researchers certain important observations can be made.

- **Industrial structure** – if the structure of the economy is biased towards industries that are inherently low productivity and low growth performers this will be reflected in the overall performance of the economy. That has clearly been one of the major problems in Northern Ireland in the post-war period. If the objective is to have a fast growing economy then the current structure is simply not fit for purpose. Recent work by ERINI calculates that between 1995 and 2002 structural effects imposed a penalty of about 3.5 per cent on productivity in Northern Ireland.
- **UK growth** is clearly an important factor for a region that is so closely integrated with the UK economy. The same is true but to a lesser extent in relation to EU growth or (even less so) growth in the world economy. UK growth has been the overwhelming contributor to productivity growth in Northern Ireland. Over the same 1995 to 2002 period productivity would have growth at almost 14 per cent if the region had enjoyed the same industrial structure as the UK.
- **Other factors** – once we move beyond structural and national growth factors there are a lot of essentially supply-side issues that can influence productivity performance. Locational disadvantage is one example but this is usually not very important overall. More recently the so called 'drivers' of productivity have attracted great attention. There are issues such as innovation (especially Research and Development expenditure), enterprise and skills in the workforce or educational attainment more generally. These drivers are widely acknowledged to be important contributors to productivity and growth though their relative contributions have been difficult to estimate. In any case Northern Ireland does not score all that highly in many of these categories. Research and Development expenditure by business (BERD), for example, is half the UK average and that in turn is low by the standards of advanced economies. Enterprise in Northern Ireland is also a mixed picture with relatively low birth rates for small firms but equally quite low death rates.

The supply-side drivers are undoubtedly important but it is essential to understand that they are part of the fundamentals and their influence in many instances takes a very long time to manifest itself. It is certainly possible, to take an analogy, to grow an orchard from a handful of seeds but it may be decades before a harvest can be enjoyed.

It would be remiss at this point not to mention the role of the public sector in this debate. This is a complex and also a sensitive issue but it is indisputable that the structure of the Northern Ireland economy has for a long time featured a proportionately larger public sector than any other region of the UK and also the RoI.

At a statistical level a large public sector will always pull down the apparent productivity of the economy simply because of the way productivity is calculated when there is no marketed output. But that is not the issue. The public sector provides a wide range of essential services. From the economic perspective these are a mixture of consumption and investment often within the same service. Transfer payments such as benefits are more or less pure consumption. Education services or health care can be a mixture of consumption (the wages of providers) and investment in human capital. Some activities such as infrastructure building are largely investment as are capital grants to the private sector.

Thus it is not only the size of the public sector but the mix of its activities that is important. Earlier we noted that Northern Ireland has a substantial fiscal deficit and this is financed by subsidy from the central exchequer. The same can be found for other UK regions and indeed in many other countries. Research on situations such as the north and south of Italy or post-unification Germany suggest that where such subsidies are biased towards investment the better the performance of the regional economy. On the other hand if subsidies focus on income maintenance or holding up the standard of living either through direct transfers or employment the competitiveness of the region suffers and its relative position stagnates or declines. The post-war convergence of the Mezzogiorno in southern Italy clearly went into reverse in the 1970s when policy changed from support for investment to general income support.

Clearly we need to bear these factors in mind both when adding to the total of public expenditure and in establishing the priorities for the expenditure we already support. In addition no one can credibly argue that where genuine productivity gains are available to the public sector these should not be pursued vigorously.

Together all of these factors that are more specific to the region such as performance on the ‘drivers’ location, the public sector and other aspects of our environment including political stability or the absence thereof pulled Northern Ireland’s productivity down by another 4 per cent in the 1995-2002 period. Thus taking account of the 14 per cent national growth factor and the negative 3.5 per cent and 4 per cent respectively for structural and other factors our overall productivity increase came to a little under 6.5 per cent in this period. By no means a disastrous result but far less than we need to get onto a real growth trajectory.

If changing productivity through supply side processes or promoting evolutionary changes in industrial structure via, for example, freeing up internal markets is a necessary but extended process, is there another way of accelerating productivity and change? The answer is, of course, yes, Foreign Direct Investment (FDI) is the route to that goal. Naturally we have known this for decades and immense effort has been expended on attracting and holding onto foreign investment since the end of World War 2. The reason is graphically illustrated by a simple figure. On average a foreign owned company in Northern Ireland is twice as productive as an indigenously-owned company. In the RoI the figure is perhaps 4 to 1 though this is artificially boosted by profit manipulation. In any event FDI of the right kind simultaneously boosts productivity, improves industrial structure and may also contribute towards improving the supply side drivers such as R&D. A good catch will stimulate horizontal development within its own sector as well as vertical development through supply chains and market stimulus. A poor catch will still contribute to improving productivity but the share of the value added it produces that is kept locally will largely be the salaries and wages of employees. Clearly 'A list' FDI projects are highly desirable but also highly difficult to attract. This means that the incentive package that Northern Ireland has to offer is a critical factor in using FDI to put the economy on a higher growth trajectory.

Mention of the importance of FDI for growth leads to a rather more fundamental issue. This is the lack of an economic strategy in Northern Ireland that takes account of the vast changes that globalisation is bringing about in the world economy.

The central issue is quite simple. If we wish to be a serious player in the global economy we have to find ways of effectively interacting with that economy.

The essential concept is connectivity. Unless we can connect with the rest of the world we cannot hope to keep up with the pace of change. Connectivity in all its dimensions, through trade, the attraction of FDI, the opening of Northern Ireland to capital and people flows as well as the physical linkages of infrastructure, air access and the exchange of ideas and culture is a silver thread around which a strategy with vision can be built.

The RoI recognises this clearly and is moving with all possible speed to reinforce existing linkages and to forge new ones in the EU and the wider world. Northern Ireland by contrast seems much less ambitious in its search for a place in the world. Strategy is still tied to a view of economic development that essentially emphasises comparative advantage rather than the dynamic of building competitiveness through clustering, the development of networks and the inter-linking of activities via supplier processes and the trading of information.

Fiscal Incentives

The presumption in a market economy is that consumers and producers engage in trade that ensures resources are utilised in a way that balances the technical capabilities of the economy with the preferences of consumers. The justification for government intervening in the system arises when the market ceases to deliver this result. This is the 'market failure' rationale for government intervention. The textbook examples of market failure are quite specific and relatively rare but in practice governments take a more liberal interpretation of the term and intervention is widespread.

The main instruments of government intervention for economic development are fiscal, either through direct expenditure on grants and loans or via tax breaks. Northern Ireland has mostly used grants for capital investment or employment as a means to attract and hold onto FDI. The RoI by contrast has relied on tax breaks to a much greater degree, though it too deploys grants and loans where necessary.

Over the past 20 years Northern Ireland has spent approximately £3 billion on Selective Financial Assistance and other aid to industry, mostly manufacturing. This has been sufficient to renew or replace virtually every manufacturing job in the region but it has not stopped the sector declining as a source of employment.

In the RoI the lynchpin of fiscal incentives for FDI has been low corporation tax. In various guises this has existed for 40 years. The results, at least over the last 15 years or so, have been startling. FDI, especially from the United States, has flooded in boosting employment and output and in particular net exports. The latter is important because while all sectors import resources to some degree only a small number of sectors produce an export surplus that finances the rest of the economy. In Northern Ireland, as we have seen, that role is substantially played through fiscal transfers. In the RoI it is surplus net exports that underpin the growth of the economy.

Fiscal incentives can be targeted either directly at the profits firms can make or more indirectly at the inputs that are believed to enhance a firm's performance. A low corporation tax is clearly a carrot that boosts after tax profits for the company but leaves the choice of what it does and how it does it to generate profits to the company. In contrast incentives that target inputs to the production process seek to influence a company's choices over, for example, capital investment or investment in Research and Development or training. Behind these input incentives there always lurks the idea of market failure and the presumption that someone other than the firm knows what is best for its business and the wider society.

This distinction between input incentives and output incentives is actually quite important because the fiscal incentive's debate is often clouded by the implicit assumption that there isn't any difference between the two. For example, it has been argued that enhanced tax credits for activities such as R&D or training would compensate for the relatively high corporation tax rate in Northern Ireland. ERINI has looked at this in detail through a report prepared by Professor Richard Harris and his associates and now available on our website. It finds that doubling or tripling the rate of R&D Tax Credit in Northern Ireland would certainly increase R&D and output but only over quite a long time and at considerable cost to the Exchequer. 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.

Contrast this with how a low corporate tax rate tackles the same issues. By their nature high-tech companies tend to be high value added and research rich. Successful companies are also highly profitable and a low profit tax environment is, other things being equal, therefore very attractive. Pharmaceutical companies are an excellent example and it is no accident that 9 out of 10 top pharmaceutical companies in the world have a presence in the RoI.

We should also be clear that corporation taxes are influencing two distinct decision-making processes in companies. The first is a discrete decision on where to locate. Other things being equal it is the Average Effective Tax Rate that influences this decision. The second type of decision is more continuous in the sense that it is kept under review and can change at relatively short notice. These are decisions about the scale of the investment in the chosen location and, more importantly, the degree to which the company locates its profits in that location. These decisions are influenced by the Effective Marginal Tax Rate. The other important factor to keep in mind is that it is not only the corporate tax regime in the receiving country that counts but also how it interacts with the tax regime in the donor country. This is particularly important for United States FDI.

These are obviously complex issues and little rigorous work has been done on the possible impact of a corporate tax regime in Northern Ireland that would compete with that in the RoI. ERINI is now undertaking such a study with the assistance of leading academics in the UK and the RoI. We hope to have at least preliminary results later in the autumn.

Fragmenting the corporate tax system in the UK for the specific benefit of Northern Ireland would pose considerable difficulties. Apart from the issue of principle and the repercussive effects on the other devolved countries (and the English regions) there are a number of difficult technical and administrative matters to be considered, including EU State Aid rules. It should be stressed, however, that given the political will none of these problems are insuperable. The question is whether the prize in terms of a higher trajectory for growth in Northern Ireland is worth the effort. The study by ERINI aims to address that question.

Corporate taxes and grant or tax credit measures that influence the input decisions of firms are not the only fiscal instruments of interest to firms. Employment taxes such as national insurance and employment regulations can also influence location decisions by FDI and the benefit system is obviously important for incentivising the labour market. In principle some of these can be adjusted by a devolved administration but in line with the parity principle there has been little appetite for divergence from UK norms on such matters.

A Further Financial Package

The case for a further financial package for Northern Ireland has to be considered very carefully. Since 1998 the region has had at least two injections of resources beyond those derived through the Barnett formula in the UK Spending Review. The first was a £315m 'Chancellor's Initiative' announced in May 1998 which was spread across a wide range of activities from new social housing to the establishment of a science park. The second was the Reform and Reinvestment Initiative in 2002 which gave access to borrowing from the Treasury (which has to be repaid with interest by those paying the Regional Rate) and the transfer of redundant security sites from the Ministry of Defence and the NIO. The case for claiming a further financial package is not strengthened by the fact that very little is known about the overall impact of the Chancellor's Initiative and there appears to have been considerable difficulty in translating the RRI into tangible benefits.

The dilemma with all financial packages is that they are time bounded and usually marginal in relation to the totality of public spending. There would, of course, be no shortage of projects to absorb new sources – no department worth its salt would have difficulty in coming up with examples. The problem is that most of these only make sense in the context of ongoing support and even one-off capital projects tend to leave revenue tails in their wake.

In the budgetary process there are usually great difficulties in shifting resources between programmes or resourcing new developments at the expense of existing activities, especially when this is attempted quickly. One means of enhancing the influence of a limited financial package, therefore, could be to use at least some of it to facilitate the orderly shifting of resources, allowing old measures to be run out and new ones to be established.

Earlier a distinction was made between public expenditure that supported consumption and spending that enhances investment. For economic development purposes there must be a clear presumption in favour of the latter rather than the former. The ‘social’ programmes already consume by far the largest part of the block and the trend has been upward. Frontline spending on economic development is now quite small in relative terms. But if a new time-bounded package is to be mostly for investment it is impossible to ignore the existing Investment Strategy which aims to spend up to £16 billion over the next decade. Indeed there are considerable concerns about the way in which this strategy has been constructed and the priorities it sets out. Investment in networks such as roads, ports and energy and telecoms infrastructure is by far the most effective means of supporting economic development. The Investment Strategy on the other hand gives priority to schools (despite a projected fall in pupil numbers) and other social programmes such as health and social housing. Commentators in the RoI have drawn attention to the dramatically different focus of the Northern Ireland Investment Strategy and the national investment priorities in the south. The overriding concern in the RoI is for a strategy that reinforces and extends economic success. Northern Ireland lacks such a clear focus.

These points are made to emphasise that it makes no sense to focus on a marginal new financial package if our existing priorities are not well founded and if we are not clear on the purpose of our spending beyond the platitudes of improving public services and welfare. As noted earlier we are in urgent need of an embracing economic strategy, and one that is built around a driving vision such as connecting with the global economy rather than the narrower focus of financial discipline, important though that is.

Two examples might illustrate how these principles could be put to good use, first, in the case of adjusting current expenditures and second, in the context of new investment.

There is common agreement that low achievement in the tail of school leavers is a very serious issue and one that borders on a scandal. It is simply unacceptable that children should go through up to 12 years of formal schooling and emerge with few, if any, qualifications. This is a personal tragedy for those involved and a serious handicap for the economy at large. It must and can be tackled through a raft of measures including, if necessary, the refocusing of resources. This is where a limited financial package could assist the transition.

If the new resources are too limited to make much difference in tackling under achievement in schools we can at least address the serious decline in the popularity of mathematics and the sciences. Failure to sustain numeracy and a knowledge of how the physical and natural world works gravely weakens our aspiration to be a knowledge-based economy playing a full role in the context of globalisation.

Turning to investment, it is noticeable in the Investment Strategy that while the further education estate will receive much needed refurbishment over the next decade the role of the universities receives little attention. The ability of the Further and Higher Education sector to produce first class graduates and, particularly in the universities, to sustain cutting edge research is vital for our future. If there is an opportunity through a new financial package and a rethink of existing investment priorities to break parity with the UK university system and aim for a major investment in our research capabilities this should be looked at very seriously.

Again if the objective has to be more modest the creation of a first class medical research facility in Northern Ireland should not be beyond our abilities. This is the sort of investment that has huge long-term potential for linking us to vital industries (and very profitable ones) that have a global reach.

Final Remarks

The interest that the committee is showing in the future of the local economy is very welcome. The number of those in what might be called the policy community who take a serious interest in how the economy is working is relatively few. In that context anything that raises the profile and the quality of the debate on our future is greatly to be encouraged.

It is hoped that this short paper can serve a useful purpose in helping to stimulate the committee's thinking.

VICTOR HEWITT
Director
Economic Research Institute of Northern Ireland (ERINI)

NI Council for Voluntary Action (NICVA)

NICVA Submission to the Assembly Subgroup considering the economic challenges facing Northern Ireland

Introduction

The Northern Ireland Council for Voluntary Action (NICVA) is delighted to be invited by the sub group to give evidence on its task as set by its terms of reference. NICVA is the representative body for voluntary and community organisations in Northern Ireland with a wide and varied membership that extends to over 1,000 organisations. Many of our member organisations with a direct interest in the economy or economic development are concerned about tackling disadvantage and promoting self help in the face of adversity. NICVA's mission is to achieve progressive social change by tackling disadvantage through voluntary action and community development. That said, the organisation is not politically partisan.

There are over 4,500 voluntary and community organisations in Northern Ireland employing around 30,000 people and the sector accounts for about 4.5% of GDP. The sector's income comes from a wide variety of sources including public expenditure for the delivery of public services, charitable trusts, the public and self generated or earned income. The European Union, including the Peace Programme accounts for 8% of the sector's overall income. NICVA believes that fairer, more equal societies are more desirable, more economically stable and more sustainable in the future.

NICVA's primary expertise is not in economic development but we recognise that a sound, stable economy in Northern Ireland is an essential prerequisite to much that we might want to achieve. NICVA has two representatives on the Economic Development Forum and plays a full part in that organisation. Like other members of the EDF we recognise that if Northern Ireland continues as it is with its current economic policy interventions our situation is not likely to improve and is more likely to deteriorate over the next five to ten years. The search is currently on in EDF to try and identify what policy changes, if implemented, would cause a step change in the Northern Ireland economy, improve prospects and make us less dependent on the substantial subvention and therefore vulnerable to public expenditure cuts.

Turning to the questions the sub group pose to NICVA, taken from your terms of reference, we feel we have something to say on the first and third but with less on number two which we feel will be well covered by others.

1. **To identify the major impediments to the development of the economy in Northern Ireland.**

In terms of impediments to the development of the economy there is no one problem or single impediment that if removed would solve our problem. There is, in our opinion, a range of issues that need attention and we have attempted to put them in order of priority:

Political Stability

The failure to put in place a devolved government in Northern Ireland, when the world thinks that that is what we are trying to do, has a negative impact on foreign direct investment. For over 10 years we have had a political process that has moved slowly, faltered and has been in recession most of the time. The outside world, including those in charge of major investment decisions, only see the big political canvas and a settled political environment is critical when there are so many other attractive locations without political problems in which to invest. A confident devolved administration that investors judge stable over time would be a 'starting block' impediment removed.

A Vision for Northern Ireland

NICVA fully supports the Economic Vision put in place by government in consultation with the political parties, EDF and others in Northern Ireland. However, we need to create a vision for Northern Ireland as a whole that sets out for the world to see that we have the ambition, desire, creativity and commitment to shape a future as good as anywhere else in Europe. The NI Executive's Programmes for Government was a good start but we urgently need to tell people what we are for, what type of society we are trying to create — a place that is politically, socially and economically attractive to people at home and abroad.

An essential part of our vision is that economic growth and equality are central to progress. It is accepted that economic growth creates the conditions under which inequalities can be reduced and poverty can be tackled. However, it is also important to recognise that more equal societies tend also to be more prosperous (eg in Scandinavia). This is because a focus on equality and social inclusion gives people a stake in society, a feeling that they can both contribute to, and benefit from, economic progress. A serious impediment to growth in Northern Ireland is that too many people do not believe it is worth their while to skill up for new employment because they do not believe they will benefit. One implication of this is that all parts of society and all government departments and agencies can and should contribute to economic growth. Whether they are concerned with improving health, tackling childhood disadvantage, providing public transport, promoting rural communities or boosting morale through sport or the arts, they are making a contribution to equality and economic growth.

Between a rock and a hard place

Economically, Northern Ireland sits between the Republic of Ireland and Great Britain or more specifically the southeast of England. Two sets of economic and fiscal policies have unintended negative consequences on development in Northern Ireland particularly on the private sector. There is universal agreement in Northern Ireland that the private sector is underdeveloped, too small and is disproportionate in size to a public sector in any reasonably functioning sustainable economy. That situation is unlikely to change as two governments are not going to reset their economic policy to assist 1.7 million people here at the expense of much greater numbers in Great Britain or the Republic of Ireland. A Northern Ireland administration will have to think of a more radical solution like a joint economic area for Northern Ireland where the UK could consider different arrangements that would assist Northern Ireland to become more economically self reliant. Northern Ireland would have to convince the UK Government that it is not simply after more handouts but the means to build a sustainable self reliant economy that does not need substantial subvention. Northern Ireland could present itself, in the way that the Republic has partly done, as a gateway to Europe, thus attempting to make a virtue of peripherality.

Public Sector reliance

As mentioned above and as is known to everyone the shape of the Northern Ireland economy is odd. Public expenditure drives the economy with two thirds of GDP accounted for by the public purse. Increased public expenditure in recent years by the Labour Government has boosted Northern Ireland and spending on goods and services has aided the private sector. This has brought down unemployment and there is a sense of prosperity. The Northern Ireland subvention is in the region of £5.5 billion and there are some who believe that it is a perfectly reasonable strategy to rely on transfers from the UK economic powerhouse of the southeast of England. But Northern Ireland can never really prosper in this dependent relationship and is at the mercy of the government of the day. A tightening of PE will mean that those areas most dependent on transfers will suffer most in the future. It seems to NICVA that simply privatising public services and passing work to the private or voluntary sector, whilst it can be argued can achieve efficiencies, will not fundamentally change the economy. We will still be dependent on the public purse to pay. The shift needs to be to new economic activity that is primarily export based and wealth creating.

Private Sector

As mentioned above there is consensus in Northern Ireland that the private sector is too small. Traditional manufacturing industry, with the exception of niche products, has been decimated in recent years and the irreversible trend for low skilled, high output jobs is to move to North Africa, India and China as well as Eastern Europe. As the Assembly knows productivity is the lowest in the UK. Northern Ireland can only have a future in the knowledge based or creative economy that powers the US and other western economies. To increase productivity and generate economic activity Northern Ireland needs high added value jobs that are well paid. To attract new investment in this area is difficult as it appears to cluster around skills and talented, diverse and tolerant communities. Richard Florida, a professor of regional economic development at Carnegie Mellon University maintains grants will not attract these jobs and investment in high value added jobs follows the talent. But how do you attract and retain the talent? Richard Florida says of Pittsburgh "Over the years, I have seen the community try just about everything possible to remake itself so as to attract and retain talented young people, and I was personally involved in many of these efforts. Pittsburgh has launched a multitude of programs to diversify the region's economy away from heavy industry into high technology. It has rebuilt its downtown virtually from scratch, invested in a new airport, and developed a massive new sports complex for the Pirates and the Steelers. But nothing, it seemed, could stem the tide of people and new companies leaving the region.

I asked the young man with the spiked hair (as I would later learn, he was a gifted student who had inked the highest-paying deal of any graduating student in the history of his department) why he was going to a smaller city in the middle of Texas (Austen), a place with a small airport and no professional sports teams, without a major symphony, ballet, opera, or art museum comparable to Pittsburgh's. The company is excellent, he told me. There are also terrific people and the work is challenging. But the clincher, he said, is that, "It's in Austin!" There are lots of young people, he went on to explain, and a tremendous amount to do: a thriving music scene, ethnic and cultural diversity, fabulous outdoor recreation, and great nightlife. Though he had several good job offers from Pittsburgh high-tech firms and knew the city well, he said he felt the city lacked the lifestyle options, cultural diversity, and tolerant attitude that would make it attractive to him. As he summed it up: "How would I fit in here?"

If Florida is right Northern Ireland or Belfast is going to have to rethink how it develops, retains and indeed attracts creative talent. But the good news is that in Florida's book Dublin is doing it so it's not restricted to Austen Texas, San Francisco, Seattle or Boston to name four of his top ten economically creative cities. If Tolerance is key then this makes A Shared Future a central policy in making Northern Ireland an attractive place to do business.

Promoting enterprise and taking risk

There is another mantra in Northern Ireland that says we need to be more enterprising, take more risks and produce more entrepreneurs and the economy will improve. NICVA agrees with this but agreeing on the problem doesn't mean the problem gets tackled. There is a culture of risk aversion in Northern Ireland that is easy to explain – failure is always punished, preferably by public humiliation. Those outside the public sector feel it is totally risk averse and is paralysed into not making decisions so as not to get anything wrong. Those inside the public sector think the private sector is risk averse too and Northern Ireland's banks are often cited as only lending to safe bets. Large parts of the private sector are grant dependent and the voluntary sector lives on grants! There is no hiding place for any of us to the accusation of being risk averse. We need to develop a culture that rewards entrepreneurial thinking, innovation and risk taking across the public, private and voluntary and community sectors in Northern Ireland. NICVA contends that entrepreneurial thinking is too important to leave just to the private sector. Northern Ireland needs it across the board. We would also encourage a cultural change that acknowledges the benefits of networking and collaboration that have become evident in thriving cities and regions in other parts of the world. The Silicone Valley experience, for example, shows that firms in Northern Ireland may derive more benefit in working together for collaborative advantage than in just competing.

To achieve the change will require exceptional leadership from a new Northern Ireland Executive and a change in how performance is measured in the public sector. How the Public Accounts Committee is used by a new assembly is critical. Used badly the PAC will ensure that the taking of risk is squeezed out of the system and that public funds are spent safely but ineffectively. Incoming Ministers will be hamstrung by a system that tells them what they cannot do rather than one that exists to enable the delivery of their programme for government. This is not an argument for being casual with tax payer's money but about ensuring we get results. It is government's job to create the climate that fosters an enterprising people. It will only achieve it by action and example not exhortation to somebody else. The balance of priorities has to move to outcomes and end products purchased rather than being overly focussed on the process of spend.

Skills

Northern Ireland's skills levels are far too low, worse even than in Britain which in turn ranks well down the world league table. Talk of a high value-added economy creating high-skilled jobs is nonsense if we do not have the people who possess these skills. Moreover there is considerable resistance to education and training among many adults, a sort of anti-educational culture. The Department for Employment and Learning has recently published a new skills strategy but NICVA believes it will not significantly improve the position (see our submission on the draft strategy). In general Northern Ireland has been quite good at offering physical infrastructure such as training centres, information technology suites and broadband access. It has been far less successful at actually reaching people who most need good training, primarily those with poor basic skills, who are likely to be unemployed or economically inactive. Among the reasons for this is that we continue to insist that employers should lead the training process even though they have little idea of how to motivate such low-skilled people. The 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.

2. **To consider fiscal incentives that may promote foreign direct investment and indigenous investment.**

As mentioned in our introduction NICVA does not have a lot usefully to add on this subject which is well covered by economists and a raft of organisations appearing before this sub group better able than us to offer comment. It is clear to us though that fiscal incentives alone are unlikely to achieve a lot. The attraction to investment is more complex and lowering corporation tax to the Republic of Ireland levels is not likely to be a magic bullet. Clearly as we have argued above there are a whole host of things that need to line up together if Northern Ireland is to become a successful economic region. Evidence from the Republic of Ireland also shows that the Celtic Tiger was already in evidence before corporation taxes were brought down. 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; Dublin fastest expanding creative class in the world; entrey of greater numbers of women into the workforce; and most recently attraction of talented immigrants just like the US. That is not to say though that lower corporation tax in the Republic has not played its part, it has but on its own it would have meant little.

3. **To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.**

It is clear that incremental change will not take the Northern Ireland economy to where it needs to be — we need a step change if real improvements are to be brought about. The shape of the economy, as mentioned above must be radically altered to grow the private sector while not necessarily implying a shrinking of the public sector.

As mentioned above, skills need to play a key role in economic regeneration. We know from the experiences in other places that the high-end skills required for growth will include engineering, ICT, nanotechnology and biosciences, among others. While focusing on the supply side alone will not necessarily create the jobs, there is merit in a serious attempt in trying to attract investment through a really serious focus on these skills in the labour force.

Having emphasised the need for stability and tolerance in a creative and dynamic economic environment, NICVA would stress the implementation of a Shared Future as being central to economic regeneration. Good relations may seem a 'soft issue' unrelated to the hard economics of our situation, but the two are very closely linked and we cannot expect to improve the economy if we do not reconstruct our society as modern, tolerant and outward looking where people feel safe in travelling from one area to another to work.

We believe there is merit in focusing on the concept of successful cities and city regions in fostering economic growth. The benefits of clustering have long been recognised, and a new emphasis is developing in GB on the city region as a driver of growth. We would like to see balanced development in Northern Ireland, not focusing solely on the east at the expense of areas west of the Bann and the examination of the hinterlands of Belfast and Derry/Londonderry should be factored in to discussions around infrastructure, transport and planning.

As women entering the labour market in hitherto unseen numbers has been identified in several places as being a factor in the celtic tiger phenomenon, we cannot ignore the need for high quality childcare as a major factor in enabling women and lone parents to enter work and training. We know that lone parents are at particular risk of poverty and make up a high proportion of those who are economically inactive. High quality, universal childcare provision not only enables those who wish it to enter the labour market but also can contribute to early child development which can in turn contribute to higher educational achievement in the long term, particularly for the most deprived children.

On a related subject, NICVA believes that ongoing reform of the education system is vital to creating a highly skilled workforce for a 21st century economy. We have campaigned for the abolition of the eleven plus and welcomed the new curriculum with the wider range of choices that offers flexibility to young people at several stages in their education. Change needs to be carried through the system if it is to serve those young people who end up with no qualifications and ultimately are economically unproductive in addition to being socially disadvantaged.

Whilst unemployment has gone down substantially another area of concern for NICVA is the rise in economically inactive adults, especially those classified as sick or disabled, may need a whole range of services, from basic education and training to drug or alcohol counselling or medical help. The voluntary and community sector, which has considerable experience and success in reaching marginalised groups and meeting their needs, has a role to play in preparing and channelling these people into employment.

People who are inactive need a full range or services, delivered in a planned and coherent way. They are likely to be helped by initiatives such as:

- good advice on pay and benefits;
- improved, reasonably-priced childcare (such as extended schools);
- special help for lone parents ;
- timely advice on benefits, pay, training and job opportunities;
- tailor-made, flexible education and training provision;
- improved public transport;
- family-friendly workplaces.

Related to the above we see a role for the voluntary and community sector in promoting economic growth through the social economy and its role in intermediate labour market intervention. In areas where there has been market failure, social enterprises have in the past been able to create jobs and foster skills development. Examples close to our own offices include business development units in the New Lodge which provide workspace, childcare and training for the local community.

Finally can we thank the Assembly sub group for seeking our views on these matters.

NICVA
10 August 2006

Appendix 4

Section 2: Additional Follow-Up Information submitted by Witnesses

Business Alliance

BA 02 06

Business Alliance Submission to Assembly Subgroup on Economic Challenges

Introduction

1 This submission summarises the key challenges Northern Ireland faces and outlines the essential elements of an 'economic package' which the Business Alliance believes should form a key aspect of the political negotiation to re-establish the Northern Ireland Executive and Assembly.

2 The Business Alliance represents an informal partnership consisting of CBI Northern Ireland, the Centre for Competitiveness, Institute of Directors and the Northern Ireland Chamber of Commerce and Industry. The Business Alliance has particular interests in working together on economic development policy, and has active involvement in the Economic Development Forum.

3 We welcome the opportunity to make a submission to the subgroup, but caution that the brief period allocated to the Subgroup to address the three elements of its terms of reference, will not permit a full and comprehensive analysis of the issues. Previous reviews of economic challenges, appropriate strategies and supporting fiscal measures - such as *Strategy 2010* and *Working Together for a Stronger Economy* (and indeed the *Culliton Report* and *Ahead of the Curve* in the Republic of Ireland) featured independent and expert analysis and stakeholder consultation. We are not aware of the process that will follow the Subgroup's deliberations but caution against drawing hasty conclusions that may result in inappropriate actions.

Key Economic Challenges

4 There is widespread consensus between business, government and economic commentators that Northern Ireland's apparent strong performance conceals underlying structural weaknesses including:

- an over dependence on the public sector;

- an underdeveloped private sector;
- low levels of business formation and R&D spend;
- low levels of labour market participation; and
- high levels of long-term unemployment and uneven sub-regional growth
- the current level of annual subvention from the UK Treasury is not sustainable

5 Projections carried out by economists on behalf of the Economic Development Forum indicate that the government's current policy and approach to economic development will not create the growth and quality jobs needed to the close the wealth gap against the rest of the UK and the Republic of Ireland. We need to take a more radical approach if we are to change the trajectory of economic growth and surpass other UK regions and the Republic of Ireland.

6 Our initial analysis is that we need to grow our economy at twice the rate of the rest of the UK and generate around 140,000 quality private sector jobs in order to close the prosperity gap, to create the jobs needed to reduce long term employment, to increase economic activity (and reduce the high number of people on incapacity benefit) and to halt the brain drain of our young talent. We would suggest that the Assembly commission a study into confirming these targets and evaluating the various proposals coming forward to meet them.

7 We consider that a sustainable step change in economic growth can only be achieved in the context of devolution - Northern Ireland has its own distinct problems and challenges especially the land border with the Republic of Ireland. Consequently we need a tailored economic strategy to address these distinctive and unique issues.

8 In our opinion current Northern Ireland Office and direct rule ministers implementing national policies in Northern Ireland will only deliver at best, growth in line with the UK average, and in the short-to-medium term even this will require the maintenance of the current level of disproportionate public spending. The Northern Ireland economy needs to grow at a much faster rate than that of GB to close the prosperity gap and policies that increase the tax burden and cost base of the predominately small private sector will stifle growth and competitiveness.

9 We must therefore accelerate the growth in the private sector and reshape and refocus the public sector to support the transition to a private sector led economy.

10 There are no silver bullets or quick fixes for the Northern Ireland economy; rather it will be a long term process requiring 10-15 years to affect the necessary changes. However any journey must start with a first step which will involve all the stakeholders (elected representatives, business, trade unions, the public and voluntary sectors) working in partnership to deliver a step change in our economy. With the right environment we are confident that the private sector will play its full part in re-building and re-structuring the economy in an ambitious and energetic manner.

11 We need to develop a business friendly environment that creates and supports the conditions for growth and one which will be attractive to both indigenous and international investors. In particular international investment must be persuaded that Northern Ireland is a stable and safe investment location. This will require political stability and to see an end to paramilitary activity, civil unrest and sectarianism.

12 In a highly competitive world to move from a public to a private sector led economy and create the economic growth and jobs we need will require not only a radical strategy but also measured risk taking and a series of new initiatives including:-

- the proactive promotion of investment, entrepreneurship and business formation;
- a flexible and targeted set of financial incentives;
- a flexible and competitive fiscal environment;
- a skills strategy matched to the future needs of the economy;
- a sustained investment in infrastructure (which is affordable);
- increased levels of innovation and technology transfer;
- a reshaped and refocused public sector which supports the transition to a private sector-led economy;
- flexibility and responsiveness in regulation and planning; and
- an operating plan to fully exploit the opportunities of all-Island markets and economy.

13 We strongly believe that in the forthcoming negotiations there is a unique opportunity to secure an 'economic package' which can create a stronger, more balanced and sustainable economy, providing more high quality job opportunities which can underpin Northern Ireland's new political arrangements. To assist in the negotiations we have highlighted below what the Business Alliance believes are essential elements of such a package which should be negotiated with the UK government.

Proposals for an Economic Package

Managed Public Expenditure Programme

14 As noted earlier there is no quick fix for the current Northern Ireland economic model. In our opinion it will require at least 10-15 years to effectively manage the transition from a public sector dominated to a private sector led economy. Consequently it is essential that the quantum of public expenditure and the size of the public sector within Northern Ireland are not reduced significantly in the short term as the current private sector does not possess the growth mechanisms to compensate for such reductions in this time period. However we must set about urgently constructing a managed transition to support private sector growth.

15 We also note that previous, civil-service-driven economic development strategies have consistently failed to meet their own objectives and see little evidence that this situation is likely to change in the foreseeable future. The recommendations of *Strategy 2010* were dismissed as "too ambitious," while the recommendations of the Economic Development Forum in *Working Together for a Stronger Economy* were almost entirely ignored in the *Economic Vision* document. We believe that a radical and challenging economic development strategy that can grow the economy, create prosperity and reduce the subvention, is more likely to come from a local political leadership and social partnership than from the civil service.

16 The current Comprehensive Spending Review will provide the opportunity to ensure that all government expenditure has an economic proofing dimension. Further it will allow a re-distribution of resources to those areas that will have maximum impact from a wider economic

perspective as well as to meet the demand side of the various community needs within Northern Ireland.

17 The Administrative costs of the public sector should be subjected to a zero based approach to ensure that the principles of effectiveness, efficiency and economy are fully implemented.

Ring-Fenced Economic Development Budget

18 In recent years the budget in respect of economic development has been reducing in real terms. Consequently if the government is serious about re-balancing the economy and driving private sector growth then it needs to provide sufficient resources to pump prime a radical and flexible economic development strategy.

19 The baseline of Invest NI is significantly below that required to support the vision of a rebalanced economy with a larger and more internationally competitive private sector. Invest NI has insufficient budget certainty in its programme expenditure going forward to aggressively pursue inward investment projects and support more start ups as well as the transformation of indigenous businesses. More ambitious export targets are essential – and this will require more resources to support appropriate programmes and training. A ring-fenced budget, which provides certainty and the ability to plan effectively over the medium term, is essential.

20 At the same time key areas critical to our economic development such as innovation, research and development, skills development, re-training and tourism, must be provided with sufficient support to ensure that faster private sector led economic growth can be sustained.

Financial Incentives

21 Post 2006 Northern Ireland will lose its *Objective 1 in Transition* status and there are milestones to phase out the various levels of financial incentives which can be offered to different types of private sector organisations.

22 As part of any radical economic development strategy for Northern Ireland it would be essential to retain flexible and attractive financial incentives to encourage private sector growth.

23 While recognising that there are a number of other factors which are critical in an investment location decision nevertheless in the medium term we suggest that Northern Ireland will require flexible and targeted financial incentives to compete effectively with other locations in an increasingly competitive global environment.

24 In our opinion the proposed changes to financial incentives will require a negotiation not only with UK Treasury but also with the EU in respect of state aids.

Fiscal/Tax Incentives

25 In addition to the financial incentives it is essential that if Northern Ireland is to move to a new growth trajectory and achieve our aspirations that a fiscal/tax package is secured which can help attract high quality Foreign Direct Investment and encourage faster growth and more entrepreneurial activity in indigenous businesses.

26 This is particularly important at a time when grant levels available to industry are to be significantly reduced under newly agreed EU state aid rules.

27 In the longer term reduced tax rates could actually lead to higher tax take for the Treasury through enhanced economic activity, higher wages, and indeed lower demands on benefits etc. This in turn could lead to a reduction in the annual net subvention to Northern Ireland over the 10-15 year period.

28 We would propose that our elected representatives attempt to secure a commitment from the UK government to deliver a competitive tax environment for Northern Ireland (for a minimum of 15 years) within the constraints of EU competitiveness policy.

29 Under this initiative various incentives could be introduced, although as noted above, all of these will be subject to EU State Aid Rules, and some are more likely be deliverable than others. However the achievement of devolved government and 'political autonomy' may have a significant bearing on the potential success of achieving such incentives.

30 The major options to be considered include the following:-

- a significant reduction in the Corporation Tax rate (current tax take in N Ireland is estimated at around £550m per annum)
- the introduction of a series of enhanced tax allowances for certain types of expenditure (which would have the effect of reducing the effective tax rate). These could relate specifically to areas where Northern Ireland needs to invest more including: research and development; training; and marketing. Expenditure in each of these areas should attract an additional tax deductible amount of 200%. Enhanced capital allowances (which the Chancellor introduced in 1998 for 5 years) could also be re-introduced for all companies
- enterprise zone status to parts of Northern Ireland to stimulate specific types of activity, particularly relating to urban regeneration
- the flexibility to alter the tax regime in order to create a financial services centre to compete effectively with the IFSC in Dublin
- Many companies will benefit from a reduction in costs in order to fund their growth and investment in innovation etc. This could be addressed through:
- a reduction in fuel excise duty (particularly diesel) to address the issue of fuel smuggling and its damaging consequences, in terms of criminality and loss of tax revenue, as well as helping Northern Ireland to offset its high transport costs
- a removal of the Climate Change Levy (to reflect continuing high costs of energy in Northern Ireland and the substantial improvements in energy efficiency businesses have achieved)
- the flexibility to alter corporate taxes which are impacted by the land border with the Republic of Ireland in order to ensure the competitiveness of the Northern Ireland offering

31 Ideally, a comprehensive and independent study should be undertaken to assess the merits and the short/medium/longer term impacts of each of these fiscal incentives.

Education/skills

32 Northern Ireland has much to do to improve the skills base and level of qualifications of the labour market, including those that are economically inactive, and in addressing the skills

shortages and mismatches that exist. Achieving accelerated rates of private sector led growth will put new and challenging demands on the labour market. It is essential that the skills agenda is recognised as essential for our future economic success. The Business Alliance strongly supports the Skills Strategy developed by DEL but it is essential that it is properly resourced ensuring that:-

- we focus on those areas of the skills strategy that require development; and
- ensuring that we maximise the contribution of the skills and education infrastructure (across schools, FE colleges and universities).

33 Investment in skills is central to the economic regeneration of the economy. The priorities for the skills agenda moving forward are as follows:-

- Understand the demand for skills – efficiently and effectively that allows a change in resource allocation and prioritisation
- Improve the skills levels of those currently in employment - and those entering employment for the first time
- Improve the quality and relevance of education and training provision
- Tackling the skills barriers to employment

34 It is critical that skills are utilised as a major component of the “selling” of Northern Ireland as a location for foreign direct investment. This means much greater collaboration between DEL and INI / DETI and a responsive and flexible training infrastructure.

35 Government invests heavily in the education and training system in Northern Ireland, despite this significant investment a skills deficit still remains. It is vital that there is more direct alignment between the work undertaken within Universities and FE colleges and the economic needs of the local economy.

36 The work carried out by DEL in reshaping the college infrastructure is important and needs to be accelerated with a consideration of the economic impact of change forefront of the agenda. The economic contribution of the two Universities should be explicitly stated – particularly in relation to innovation and research and development.

37 There should be a greater focus on the range of skills required to move the economy forward – including academic, professional and technical skills. Increasing the profile and perceived value of professional and technical skills is important.

38 The DEL skills strategy identifies many of these areas and is supported by the business community. It is essential, however, that the implementation of the strategy is fully funded. We would have some concerns about the degree to which the Department is able to fully implement the strategy within the current profile. Additional funding is required to:-

- develop skills to level 2 (around 30% of the population is not qualified to level 2)
- increase the literacy and numeracy of the workforce
- increase economic activity (inactivity currently sits at over 27%)
- increase the skills levels of those currently in employment – through developing technical and professional skills (level 3 and beyond)

Estimates would suggest that an additional £37m will be required to address the skills deficiencies within this agenda.

Technology/Science/Innovation and R&D

39 Northern Ireland's future success will increasingly be tied to the development of innovation and technology led companies. This is important not just in emerging leading edge sectors but also to transform mature sectors where innovation and R&D has a key role to play in increasing added value and improving international competitiveness. It is important to encourage increased uptake of technology, R&D and innovation focus on near market activities and not just on fundamental research. There is significant scope to enhance the performance of SME's and indigenous businesses by encouraging better design, technology transfer/uptake and more collaboration with Further Education Colleges and Universities. For their part both local Universities need to develop strategies detailing how they can better contribute to regional economic development.

40 The fiscal incentives noted earlier will clearly provide important stimuli for increased investment by companies in R&D. However other measures are required to address Northern Ireland's weak performance in this area, and ensure our universities and research institutions play their full part in creating a more enterprising and innovation-led economy. For example public expenditure on science and technology in NI is only £11 per capita compared to £28 per capita for the UK – equivalent to a gap of £29m per annum. Consequently we need to consider re-allocating resources to the following areas:

- significant enhancement in public expenditure focused at enhancing our science and technology capabilities and increasing R&D within our universities. It is estimated that £100m will be required over the next 5 years
- a series of measures (totalling around £10m per annum) to significantly enhance business-FE/HE interaction and our skills capabilities in this area including:-
    - funding to the Further Education Sector to enhance collaboration with SMEs to improve product/process innovation - this might be undertaken jointly with the Higher Education sector – around £2m pa is likely to be required to deliver an effective programme which will enhance the innovation capabilities of SMEs
    - more support to be given for key technology areas such as Nanotechnology where a relatively modest spend (circa £2 million pa) would help provide the research staff resources needed to progress faster in this emerging technology
    - funding to be made available for PhD students to prevent a drop in their number in the coming year and to secure over the medium term a significant increase in post-graduate numbers involved in science/technology

Transportation Infrastructure and Services

41 The Business Alliance welcomes the Investment Strategy for Northern Ireland, and indeed the development of Public Private Partnerships to help deliver this strategy. Compared with other UK regions Northern Ireland has a more significant deficit across a wide range of public services. However we must ensure that the investments undertaken are affordable and do not add an excessive burden to Northern Ireland rate payers in the future.

42 In the light of the above there would be the opportunity to seek a one-off contribution to the infrastructure deficit from the UK government. In addition this might accelerate the rate of improvement within the Northern Ireland infrastructure and address some of the problem areas outlined below.

43 Recent announcements outlining how an additional £400m is to be spent on the Strategic Road Network (as part of the Investment Strategy for Northern Ireland) are welcome, but this still highlights a shortfall of over £100m of capital investment on other priority projects over the next 10 years. At the same time there is growing concern at the reduction in the road's maintenance budget which was cut in this year's budget by over £20m to around £45m, yet it is estimated that we should be spending some £90m per annum to keep the Northern Ireland road network properly maintained.

44 There is also a considerable investment required to develop Northern Ireland's public transport provision covering the rail network and buses. Progress has been achieved in recent years and passenger numbers are rising but achieving a modal shift towards public transport will require significant investment in the development of high quality bus lanes, new buses, and rail improvements including track and rolling stock.

45 From a Northern Ireland perspective certain infrastructure developments in Great Britain are also essential, and there may be merit in arguing for these to be given higher priority. The top priority would be in Scotland where upgrading of the A75 and A77 routes remain key.

Public Sector Reform

46 While we have highlighted earlier the dangers of reducing public expenditure and the size of the public sector too quickly nevertheless the Business Alliance supports the public sector reform agenda.

47 We consider that there is significant potential to reform and simplify public services, secure efficiencies, reduce waste, eliminate duplication, reduce administration and management costs, and make better use of the resources. It is essential that we deliver a more effective and efficient public sector. This will require rationalisation and the numbers employed, particularly in administrative and management functions will diminish in order to release funds for the 'frontline' services. At the same time we should use the reform agenda to help drive the economic agenda, for example in creating leading edge expertise in 'shared service' provision.

48 To manage these changes we suggest that our elected representatives negotiate the following initiatives as part of the economic package:-

- a restructuring package to assist with redundancies, retraining etc and recruiting the 'change management' specialists with the appropriate skills and experience to effectively deliver the reform agenda (this could run into several tens of millions);
- an agreement that the proceeds of the sale of any underutilised government assets can be retained and reinvested, in Northern Ireland; and
- agreement that the increasing burden of the introduction and reform of water charging and rates should be phased in over a longer period.

49 One key issue which needs to be addressed in the preparation for a new Executive/Assembly is the roles and responsibilities of a smaller number of government departments. The increase in the number of departments from 6 to 11 as part of the Belfast Agreement has significantly increased the level of bureaucracy and has, inter alia, dramatically diluted the potential to create integrated, nimble and flexible economic development strategies that are tailored to the specific needs of Northern Ireland. We believe that the Review of Public Administration (RPA) should be radically enlarged to embrace the 11 departments and to effect a steep reduction in this centralised public administration. In particular there is a significant opportunity to look at reshaping and merging DETI, DEL and DE and elements of DSD to create a more co-ordinated and focused Department charged with the development and implementation of the radical economic development and social inclusion strategy.

Concluding Remarks

50 Northern Ireland needs a new radical economic development agenda in order to close the prosperity gap with the rest of the UK and the Republic of Ireland. Achieving this goal will require:

- securing a stable devolved government with an end to paramilitary activity, civil unrest and sectarianism
- ensuring the economic agenda becomes the Executive/Assembly's top priority in order to accelerate the growth in the private sector and reshape and refocus the public sector to support the transition to a private sector led economy
- securing an 'economic package' which can create a stronger, more balanced and sustainable economy, providing more high quality job opportunities which can underpin Northern Ireland's new political arrangements – ideally this should consist of a detailed study to assess the balance of measures which will deliver the greatest economic benefit

11 August 2006
The Business Alliance (CBI, CforC, IoD, and NICCI)

Department of Education

FROM: ROBSON DAVISON
Deputy Secretary
Schools and Youth Policy

DATE: 10 August 2006

TO: Mr Jones
NI Assembly

FOLLOW UP TO DE EVIDENCE SESSION

1. I attach a note on the requests of the business world which have emerged out of recent consultations. The Department's broad response has been through the lensed curriculum, the review of school improvement and the literacy and numeracy strategies and the work underway with DEL on careers provision.

2. I attach also data from 1992/3 on NI, England and Wales comparisons at 'A' level and GCSE, which includes those achieving no GCSEs.

3. I am including a paper on HE places from DEL since that issue also arose in the DE discussion.

R Davison

Needs of business

Key Message

Business has asked us for highly-skilled school leavers, objective assessment, more vocational education, choice and flexibility and want to work with the Department.

Identified weaknesses

- Too many young people leave school with poor literacy & numeracy levels.
- Many young people have no vocational skills relevant to the world of work.
- Key skills in our graduates and other school leavers remain significantly below employer's expectations (various CBI surveys).
- Many of our young people do not have the positive attitudes required.

Needs of employers

- A highly skilled, adaptable and creative workforce.
- Potential employees with the life skills, work skills, competencies and qualifications that will make them valued members of the labour force:
  - Basic and key skills – literacy and numeracy, communication, thinking skills, problem-solving and self-management and a positive attitude – self-confidence, motivation, regard for others and integrity, values and attitudes appropriate to team-working, harmony and success in the workplace and issues such as citizenship, employability and entrepreneurship.
  - The tools of knowledge, skills, learning and application which are essential to the development of the strong knowledge based economy with plentiful opportunities.
  - career planning skills – the ability to find and evaluate information, action, plan and set goals and objectives for one's own future.
  - Knowledge and understanding of enterprise, business and the economy.

Assembly Sub-Group: Business and School Provision – Curriculum

On 1 April 2006, Dr Ian McMorris (CBI NI) and Michael Lowe (NICCI) were appointed to the CCEA Council – giving business a direct opportunity to shape advice to the Department.

Suggestions for improvements to the Education System

Business (through CBI and IoD) has suggested the following in various submissions and meetings:

- A clear vision and outcomes from the education and training system must be established.
- Education is developed and implemented in partnership with business – it should have the employability of its young people as a prime concern.
- Schools and other parts of the system should be seen as a supporting part of an overall economic strategy formed by the Department of Enterprise, Trade and Investment.
- A learner-centred approach – providing flexibility, choice and opportunity so that young people can select their preferred route through the education system.
- A curriculum of greater flexibility and breadth of subjects, with greater flexibility at KS4, supported by partnerships with FECs and Training Organisations.
- The need to enhance the quality of the vocational route. (CBI- should not have separate academic and vocational schools but provide opportunities for young people to experience different learning pathways and the ability to change schools at the start of KS4). (IOD - equal value should be accorded to 'academic' and 'vocational' career paths.)
- Assessment, to include assessment of skills, to be objective and reported in Pupil Profile, which they felt could be 'strengthened' by the use of objective elements such as assessment programmes available through ALTA.
- Stronger careers education and guidance.
- Investment in teachers, including the development of ICT skills, a greater focus on improving leadership within schools/colleges.

GCSE and A Level Comparisons with England and Wales (1992/93 - 2004/05)

Performance Indicator[1,2]		1992/93	1993/94	1994/95	1995/96	1996/97[6]	1997/98[7]	1998/99	1999/00[8]	2000/01[8]	2001/02[9,10]	2002/03[9,10]	2003/04[9,10]	2004/05
% achieving 2+ 'A' Levels A-E[3]	NI	85	87	87	90	91	92	92	93	93	95	95	96	97
	England[5]	78	80	82	83	84	86	86	87	89	93	93	94	95
	Wales	n/a	n/a	n/a	87	89	90	91	92	93	94	94	95	94
% achieving 5+ GCSEs A*-C[4]	NI	48	49	51	52	54	55	56	57	57	59	59	60	61
	England	41	43	44	45	45	46	48	49	50	52	53	54	57
	Wales	37	39	41	42	44	46	48	49	50	50	51	51	52
% achieving 5+ GCSEs A*-G[4]	NI	83	82	84	84	85	87	87	87	87	87	87	88	89
	England	84	86	86	86	86	88	88	89	89	89	89	89	90
	Wales	76	79	79	79	80	82	83	85	85	85	85	85	85
% achieving no GCSEs[4]	NI	6	5	4	5	4	3	3	4	4	4	4	4	3
	England	7	8	8	8	8	7	6	6	5	5	5	5	4
	Wales	11	10	11	11	10	9	8	8	8	8	7	7	7

1 Sources: DE, DfES, National Assembly for Wales.

2 Excludes special and independent schools in Northern Ireland.

3 'A' level figures are expressed as a percentage of pupils in the final year of an 'A' level course in Northern Ireland;
as a percentage of all 16-18 year olds in schools entered for at least one A level in Summer of the academic year in England;
and as a percentage of all candidates entered for 2 or more A Levels in Wales.

4 GCSE figures are expressed as a percentage of pupils in year 12 in Northern Ireland, and as a percentage of 15 year olds in England (pre 2004/05) and Wales. From 2004/05 England figures are for pupils at the end of Key Stage 4.
The 2000/01 Northern Ireland figure for the percentage achieving 5 or more GCSEs at A*-G has been revised.
From 2003/04 GCSE figures for England also include the wider range of qualifications approved pre-16.

5 A level figures for England have been revised.

6 From 1996/97 GCSE figures include GNVQ Qualifications.

7 From 1997/98 pupils with statements of special educational needs have been excluded from Northern Ireland figures.

8 A Level Figures for 1999/00 and 2000/01 for Northern Ireland are from the University of Bath GCE Database.

9 A Level Figures from 2001/02 for Northern Ireland are taken from the Summary of Annual Examination Results.

10 A Level Figures from 2001/02 for Northern Ireland, England and Wales include Advanced Vocational Certificates of Education (VCEs).
Also, included in this section are those pupils aged 17 in Wales and in Year 14 in Northern Ireland who obtained AS Levels and who did not sit the A2 modules of these subjects. In this respect 2 AS Levels are equivalent to 1 A Level.

Department for
Employment and Learning

CONSIDERATION OF THE OPTIMUM NUMBER OF FULL TIME UNDER GRADUATE PLACES IN NORTHERN IRELAND HIGHER EDUCATION

A Position Paper

You will have noted Employment and Learning Minister Angela Smith's speech at * Royal School on Friday when she invited comments on full-time under graduate places at local universities. Please see the paper and press release attached.

The Department for Employment and Learning welcomes comments in relation to this document. Comments should be made by mail, fax or e-mail to:-

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CONSIDERATION OF THE OPTIMUM NUMBER OF FULL-TIME UNDERGRADUATE PLACES IN NORTHERN IRELAND HIGHER EDUCATION

A POSITION PAPER

Introduction

1. There has been increasing public debate in relation to whether there are too many or too few full-time undergraduate places in Northern Ireland. Those that are in favour of creating more places often suggest that this would have a positive impact on widening access to groups currently under-represented in Higher Education. It is argued that more graduates will be required to meet the future skill needs of the Northern Ireland economy. It is also suggested that if more full-time undergraduate places were available locally, this might stem the flow of students who currently leave Northern Ireland for their Higher Education experience, many of whom do not return after graduation.

2. Conversely, there are those who would suggest that Northern Ireland is over-endowed with full-time undergraduate places. They often argue that there are already Northern Ireland graduates in jobs that are not well suited to graduate skills and that more graduates would simply exacerbate this situation. While they may accept that increasing the number of places could indeed widen access to groups that are currently under-represented in Higher Education, this, they suggest, might also be accompanied by a reduction in entry standards and a devaluation in the perceived value of a degree.

3. An issue that is often not brought to the fore in this debate is the public expenditure costs associated with an expansion of places. However this is an important consideration for a society which also places value on many other Government funded services and on the importance of meeting skills needs at qualification levels below higher education.

4. The degree of public consensus in relation to an optimum number of full-time undergraduate places in Northern Ireland appears limited. Furthermore, the issues that underpin the debate are often complex and profound. The purpose of this paper is to further inform discussions in this area by setting out and providing analysis of the relevant evidence that currently exists. It also examines the wider strategic context and how changes in that, especially in relation to the introduction of variable deferred fees, might impact on the need for more places locally. Finally, the paper sets out what further work the Department intends undertaking to ensure that the position is both monitored and better understood and invites comments from the public across the related issues.

The Strategic Context

5. The Department recognises the increasingly important role Higher Education plays in supporting economic development by providing a well educated workforce adaptable to the needs of the changing economic environment. The Department also wishes to ensure that access to Higher Education is available to all who have the potential to benefit from it, regardless of background. It has committed, in its Corporate Plan 2005 – 08, to develop and implement a Northern Ireland regional strategy on widening access, extending the remit beyond Higher and Further education.

6. However, when considering the number of full-time undergraduate places in Northern Ireland, it is important to ensure that there is complementarity with other policies that also aim to strengthen the economy and widen access to skill enhancement and the development of human capital. At the broadest level there needs to be consideration of whether increasing full-time undergraduate places, which are taken predominantly by young adults, is the most appropriate approach to supporting economic development. There is also the question of whether such an increase would send the right signal to those considering alternative forms of learning. For example the Department could, as an

alternative, encourage further expansion of part-time Higher Education, a route which tends to draw in more mature students and which can reduce the fear of debt for those from low income backgrounds.

7. In addition, the Department wishes to ensure consistency between its policy in relation to the number of local full-time undergraduate places and other relevant policies including the promotion of Modern Apprenticeships. If by increasing the number of local full-time undergraduate places the effect was to draw students into Higher Education who were less well qualified, this may reduce the numbers enrolling for Modern Apprenticeships. The latter may, in fact, be more suited to their talents and abilities. The Modern Apprenticeship route does not preclude progression to Higher Education and the Department would wish to develop such progression routes for the more able Modern Apprenticeship candidates.

Background

8. In 2003/04, there were 12,699 full-time undergraduate first year enrolments on Higher Education courses at Northern Ireland institutions, a 23% increase from 1998/99. Over the same period the number of first year enrolments on part-time undergraduate courses increased by 35%, rising from 9,974 to 13,486. It should also be noted that over a quarter of Northern Ireland domiciled first year enrolments on Higher Education courses are at institutions in Great Britain and the Republic of Ireland.

9. To a significant extent the debate has centered on the number of full-time Higher Education places which Government funds the institutions to provide. A cap on these numbers has been in place since 1994, when in order to constrain escalating public expenditure on demand-led student support costs, Government introduced a UK-wide policy of consolidating the numbers of award holders in Higher Education. As a result, expansion of full-time enrolments has been limited. This policy was enforced through the setting of an annual cap, known as the maximum aggregate student number (MASN), on the numbers of award holders

(mainly full-time undergraduate students) which individual Higher Education institutions could enrol.

10. This cap, now referred to as the Maximum Student Number (MaSN) continues to be applied by the Department for Employment and Learning to all home and European Union full-time university undergraduate students. It does not apply to full-time undergraduate students from outside the European Union, to part-time undergraduates or to postgraduate students, the universities are free to recruit as many such students as they wish. A MaSN allocation also applies to full-time, but not part-time, Higher Education places in the 12 Further Education colleges that are approved to deliver full-time Higher Education provision.

11. While the existence of the MaSN has successfully acted to constrain the number of full-time undergraduate Higher Education places in Northern Ireland, its level has been lifted in recent years to allow for further expansion: -

(a) Since 1999, the Department has allocated some 4,130 additional full-time equivalent (FTEs) student places of which 1,170[1] went to Further Education Colleges and 2,960 to the university sector. Almost all the places in the universities were full-time.

(b) The Department is not the only government department funding places in the university sector. The Department of Health, Social Services and Public Safety (DHSSPS) funds some 1,000 full-time undergraduate places for Allied Health Professional (AHPs) courses, while also funding some 2,300 pre-registration student nursing places. DHSSPS has expanded considerably both these courses in recent years.

[1] The 1,170 additional places allocated to the Further Education Colleges includes 300 pilot Foundation Degree full-time equivalent places which were allocated to the university led

The Position Elsewhere in the UK

12. The MaSN cap was abolished in England in 2002/03. The reason for the different approach there lies in the different experiences of the two territories. The experience of the Higher Education Funding Council for England (HEFCE), in dealing with a large number of institutions, was that a significant proportion tended to err on the side of caution and under-recruit. The result was that the total number of award holders was consistently less than expected. In addition, the policy in England is to fund growth towards the 50% participation target and significant funding has been made available in England to finance subsequent growth in student numbers.

13. It should be pointed out that, even after the abolition of the MaSN cap in England, public expenditure growth arising from increases in full-time undergraduate places continues to be managed at the macro level. The Department for Education and Skills's (DfES) grant letter to the Higher Education Funding Council for England (HEFCE) states that the student support costs of any growth in student numbers above the planned and funded trajectory will be met by reducing HEFCE's grant.

14. The position in Wales closely mirrors that in England. In Scotland, the Scottish Executive continues to place a limit on the overall full-time undergraduate student enrolments.

Analysis of the Evidence

15. In order to establish the merits of tightening, retaining, easing or abolishing the current cap on full-time undergraduate places in Northern Ireland, there are a number of key issues that require careful consideration. These are discussed below and include:

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consortia who were delivering Foundation Degree pilots. The universities then decided how many places each of their Further Education partners should receive.

- the extent of continued demand for higher level skills within the economy;
- issues relating to widening access to currently underrepresented groups;
- consideration of the equality impact of the cap on full-time undergraduate places in Northern Ireland;
- demand for full-time undergraduate Higher Education places in Northern Ireland and the extent to which the current cap prevents demand being met;
- the possible impact on supply of local Higher Education places if the current cap is eased or abolished; and,
- the potential impact on public expenditure.

Market demand for Higher Level Skills

16. The significant rates of return associated with Higher Education are well documented. Harmon and Walker in "Education and Earnings in Northern Ireland" (2000) noted that returns to Higher Education, in terms of a graduate's extra earning power, are high. Furthermore, they found no evidence of a decrease in this return over time despite significant growth in Higher Education participation. They took the view that these sustained high rates of return indicated the existence of barriers associated with entry to Higher Education and suggested, at that time, that the limit on the number of local Higher Education places could be a contributory factor. More recent evidence from the Northern Ireland Labour Force Survey (2003) continues to show a marked pay advantage associated with being a graduate. Those data show that the earnings of graduates working in Northern Ireland were around 58% higher than for non graduates. Further, growth in the demand for graduates is set to continue. The Institute for Employment Research forecasts that the number of jobs held by graduates in Northern Ireland will increase by around 35% over the decade to 2010. In comparison, overall Northern

Ireland employment growth has been forecast at 6% over the corresponding period.

17. Set against this positive picture is the emerging literature on graduate "overeducation". It examines the extent to which graduates are employed in occupations which do not make full use of the skill set they develop while at university. Work by McGuinness (2004) suggests that around 26% of Northern Ireland domiciled graduates were working in jobs that did not require a degree three years after leaving university. There is also evidence emerging that in recent years the rates of return associated with possessing a degree are beginning to decline (Elias and Purcell, forthcoming).

18. It is also important to recognise that increasing the number of Higher Education places in Northern Ireland may not subsequently translate into more graduates being retained in the local labour market. Issues other than location of Higher Education study impact upon an individual's choice of employment location. For example, many graduates migrate to the South East of England from other parts of the United Kingdom to secure higher salaries.

Widening Access

19. Widening participation in Higher Education by students from groups who are currently under-represented is one of the Department's key strategic goals. Since the year 2000 the Department has been addressing this issue through a number of policy directions and a range of specific funding mechanisms including:

- special project funding specifically aimed at allowing the universities to test their strategies and approaches to making access to Higher Education available to under-represented groups, and to develop partnerships with schools with traditionally low levels of participation in Higher Education;

- a widening participation premium which is paid to the universities for students from disadvantaged backgrounds, the allocation of which is based on non-fee paying students;

- a requirement on the part of universities to produce widening participation strategies and action plans which detail activities, targets and performance indicators regarding the recruitment, retention and progression of students from under-represented groups; the Action Plan provides a means by which Higher Education institutions can account for their premium funding expenditure.

20. In addition, a condition that will be placed on any institution wishing to charge variable deferred tuition fees will be that they submit an Access Agreement to demonstrate how they will meet challenging targets to improve widening participation.

21. In relation to promoting access for those from the lower Socio Economic Classifications (SECs), Northern Ireland performs at least as well as other countries of the United Kingdom. In 2004/05, 25% of accepted applicants to degree courses at NI institutions were from SEC groups 5, 6 & 7, compared to 23% at English institutions, 24% at Scottish institutions and 25% at Welsh institutions. Despite this good performance, those from the lower SEC groups in Northern Ireland continue to be underrepresented in Higher Education.

22. It is important, in this context, to consider how the MaSN might impact on the Department's objective of widening access. We know that around 28% of NI domiciled full-time undergraduate students are enrolled on Higher Education courses in institutions outside Northern Ireland. An analysis of Universities and Colleges Admissions Service (UCAS) application data indicates that those students that do leave Northern Ireland tend to be drawn much more heavily from the higher SEC groups. In addition, the vast majority of those that leave do so to secure

their first choice course as revealed during the application process. On the other hand, those applicants who are not successful in attaining a university place either in Northern Ireland or elsewhere, tend to be more heavily drawn from the lower SEC groups, albeit that those applicants "not accepted" tend also to possess significantly lower average A level scores. On the basis of this evidence it might be argued that the adverse impact of a cap which constrains locally offered places will be more heavily felt by those from the lower SEC groups. They are less likely to migrate for their Higher Education experience, perhaps because of affordability constraints, but are more likely to be amongst the "not accepted" applicants.

23. A study undertaken by Pat McGregor et al ('Home and away: graduate experience from a regional perspective', 2002) also has relevance. He examined a cohort of Northern Ireland domiciled graduates to cast light on the issue of student flows. He noted that if more of the costs associated with participating in Higher Education are passed to the student, more students are likely to want to study closer to home and within Northern Ireland. The paper goes on to say 'the greater competition for places will favour the higher qualified, currently those who are most likely to leave. Chances are the less well qualified, who are also from the lower social classes, may find it increasingly difficult to find a place in Higher Education in Northern Ireland'. McGregor recommended that a larger number of Higher Education places should be made available within Northern Ireland to ensure access for those from the lower socio-economic groups. This issue will require careful monitoring particularly as variable deferred fees are introduced both in Northern Ireland and elsewhere from 2006.

24. If overall numbers are capped and the pool of potential applicants does not reduce, any success achieved through actions by Government or the institutions to widen participation among lower socio-economic groups must be at the expense of those in categories already well represented in Higher Education. To the extent that these people are well qualified

and from relatively well off backgrounds, they are all the more likely to seek their Higher Education outside Northern Ireland and are. correspondingly, less likely to return after graduation.

Section 75 Equality Issues

25. In relation to the Section 75 equality issues, there is a long standing contention that the existence of the MaSN cap operates unfairly to the disadvantage of specific groups, particularly Protestants. In this regard it should be clear that all Northern Ireland institutions in the university sector are designated as public authorities under Section 75 of the Northern Ireland Act 1998 which prohibits discrimination on a number of grounds including religion and political outlook. Also, all Northern Ireland institutions have developed Equality Schemes, which have been approved by the Equality Commission, and which extend to the institutions' admissions policies.

26. Secondly and more broadly, it is the case that a majority of Northern Ireland domiciled students who study locally are Catholics, while those who opt to leave to study elsewhere are drawn more from the Protestant community. Data gathered from the annual School Leavers' Survey shows that of those school leavers entering Higher Education in NI, in 2001/02, 58% declared their religion as Roman Catholic and 37% as Protestant. Of those entering Higher Education at Great Britain institutions in 2001/02, 34% declared their religion as Roman Catholic and 53% as Protestant. There may be a feeling that the MaSN cap has created or contributed to this state of affairs.

27. The following table sets out the religion of full-time undergraduate students enrolled at Higher Education institutions in Northern Ireland since 1997/98.

NI domiciled full-time undergraduate first year students enrolled on courses at Northern Ireland Higher Education Institutions by religion 1997/98 – 2003/04

Academic Year	Protestant	Roman Catholic	Other	Not known/ unavailable	Total
1997/98	2,274	3,120	177	1,920	7,491
1998/99	2,323	3,295	212	1,478	7,308
1999/00	2,477	3,608	217	1,365	7,667
2000/01	2,755	4,265	268	1,240	8,528
2001/02	2,920	4,231	245	1,720	9,116
2002/03	3,472	4,998	335	872	9,677
2003/04	3,349	4,657	340	1,214	9,560

Source: HESA

Figures for 1997/98 – 1999/00 relate to a snapshot of enrolments at 1st December in the relevant academic year and figures for 2000/01 – 2003/04 relate to a full-year count. Religious affiliation is not a mandatory question for students and has a high non response rate.

28. Between 1997/98 and 2003/04 there was a 28% increase in the number of full-time Northern Ireland domiciled first year students enrolled at Higher Education institutions in Northern Ireland. Over the same period the proportion of first year Northern Ireland domiciled students that declared themselves as either Protestant or Catholic remained markedly static over the period (calculated as a proportion of those that declared a religious affiliation). This would suggest that the increase in enrolments over these years was not biased in favour of either religious grouping. The experience in the Further Education sector, in relation to full-time provision of Higher Education level courses, has been similar.

29. It is not clear how raising or abolishing the MaSN cap would act to influence the propensity for Protestants to leave for their Higher Education experience, particularly if most leave as a result of a positive personal choice to do so. While UCAS does not collect data by religion, its Higher Education data show that the vast majority of those students that leave Northern Ireland do so to secure their first choice course and location as revealed during the application process. The students who leave tend, on average, to be better qualified in terms of 'A' level scores than those that remain in Northern Ireland. As rehearsed above, the introduction of variable deferred fee proposals may impact upon student choices and might lead to fewer students going away, including fewer

from the Protestant community. However, their choice to remain in Northern Ireland might displace students from the lower SEC groups unless there is a commensurate increase in the number of Higher Education places available locally.

Demand for HE Places

30. In terms of assessing the possible impact of the MaSN cap on economic development; widening access to Higher Education and on calculating the Public Expenditure implications of any easement, it is important to consider the extent to which the MaSN acts as a constraint on take up of Higher Education in Northern Ireland. A significant proportion of Northern Ireland's young adults already participate in Higher Education. The latest comparable data show that the Age participation Index[2] for Northern Ireland, which measures participation rates in full-time Higher Education, was significantly higher than the Great Britain average.

31. In England, participation is now measured using the Higher Education Initial Participation Rate (HEIPR) which calculates participation across both full and part-time Higher Education courses. On that basis the participation rate for England stood at 43% in 2003/04. It is estimated that the equivalent figure for Northern Ireland is at least 57%. In terms of the overall full-time undergraduate enrolment, the number of Northern Ireland domiciled students has risen significantly over the last number of years. For example, in 2003/04, the latest year for which data is available, the overall number of Northern Ireland domiciled full-time undergraduates was 43,145 up 15% since 1998/99. This growth has been driven by a mixture of factors including:

- increases in the young adult population;
- more students staying on in post compulsory education;
- increases in the subsequent attainment rates at 'A' level or equivalent; and,

[2] The API is calculated by expressing all Northern Ireland domiciled young entrants (aged under 21) to full-time higher education (in the United Kingdom or Republic of Ireland) as a percentage of the 18 year-old population of Northern Ireland.

- a significant expansion in the number of places available locally.

32. Looking forward, the nature of these growth drivers may change. In particular, the Northern Ireland population in the age range 18 to 20 is projected to peak in 2005 and fall thereafter (a fall of 4% is projected between 2005-2010). Already around 95% of those pupils taking 'A' levels achieve two or more at grades A – E and clearly the room to expand this proportion further is constrained. Added to this, there is currently little planned provision for additional Higher Education places beyond 2004/05. However, there may be potential for growth in the number of young people remaining in post compulsory education and vocational training. In 2003/04, 74.3% of 16 and 17 year olds in Northern Ireland participated in full-time education or vocational training in schools and Further Education Colleges, up from 69.5% in 1999/00. This has the potential to grow further, particularly if the recently introduced Education Maintenance Allowances deliver the positive impact on staying on rates that was experienced in earlier pilots in Great Britain.

33. Also related to the demand picture, it is interesting to note that the proportion of Northern Ireland domiciled applicants not accepted for a University place has been declining in recent years. In 2000/01, 28.6% of Northern Ireland domiciled applicants were not accepted into a university place compared to 22.5% in 2003/04. Given this picture it could be argued that if the number of places increases, there is a risk that entry standards could fall.

34. The demand for places in Northern Ireland institutions is influenced by a similar set of factors as those outlined above but is also subject to a number of additional issues such as:

- the desire of Northern Ireland domiciled students to undertake their Higher Education studies outside Northern Ireland; and

- the extent to which Northern Ireland Institutions attract enrolments from other United Kingdom and European Union students.

In relation to the former, the proportion of Northern Ireland domiciled full-time undergraduate students studying outside Northern Ireland has been in decline for the last number of years, but remains significant. In 2003/04 28% of Northern Ireland domiciled full-time undergraduate students left to study in Great Britain, down from 35% in 1998/99. However, the proportion of students that leave Northern Ireland is considerably higher than for England and Scotland where 5% and 6% respectively of their full-time undergraduate population migrate for their Higher Education experience. In Wales, like Northern Ireland, the proportion of students migrating is relatively high at 38%.

35. As discussed earlier, the vast majority (96%) of those that leave Northern Ireland for their Higher Education experience do so to secure their first choice course and location. On average those that leave possess higher entry qualifications than those that remain in Northern Ireland. Furthermore, it is not the case that vast numbers of students leave Northern Ireland with lower entry qualifications. For example, if we consider those Northern Ireland domiciled students that were accepted onto Higher Education courses with entry qualifications equivalent to three 'D' grades at 'A' level or less, 18% of those that went to English institutions fall into this category compared to 14% of those who attended the University of Ulster. Given this evidence and in the current climate, it is not clear that the current outflow of students would be significantly stemmed by the creation of additional places locally.

36. While the scale of the impact cannot be determined, the introduction of variable deferred fees may influence student choices and more may wish to study within Northern Ireland. In other words, while the introduction of the variable deferred fees might not impact on overall demand for Higher Education amongst Northern Ireland domiciled students, it could lead to a rise in the demand for places locally.

37. The number of Higher Education students from other United Kingdom regions and from the European Union studying in Northern Ireland institutions is relatively small accounting for 8% of full-time undergraduate enrolments.

Supply of HE Places in NI

38. The extent to which the Universities and Further Education colleges expand provision in response to any easement in MaSN is likely to be heavily influenced by financial considerations and a desire to retain academic standing. It is unlikely that universities or colleges would recruit significant numbers of additional students if they were required to do so at a loss or if it meant that they had to significantly lower entrance requirements. In any case, the Department would not wish to promote such behaviour in the Higher Education sector.

Public Expenditure Implications of Easing/Abolishing MaSN

39. The magnitude of additional Public Expenditure is likely to be directly influenced by a number of factors including:

- the extent to which there is unmet demand for Higher Education places in Northern Ireland;
- if there is unmet demand, whether that is made up of demand from those who would otherwise have left for their Higher Education studies, in which case their student support costs would have been met regardless of whether they study in Northern Ireland or elsewhere;
- the extent to which any unmet demand is from students that otherwise would not have taken up an Higher Education place elsewhere. In that case, their student support costs would present an entirely additional burden on the public purse unless they would have

been engaging in some other publicly funded Further Education or training route;

- the extent to which the MaSN is eased and whether government funds the additional teaching costs associated with any extra places that universities or colleges subsequently create;
- the subject areas where additional provision is created, the unit costs of which vary; and
- the response of the Northern Ireland Universities and Further Education colleges to any MaSN easement or abolition in terms of number of additional places they choose to generate.

40. Taking account of these issues, it is estimated that for each additional 1,000 full-time undergraduate Northern Ireland places generated as a result of an easement in the MaSN cap, the maximum cost would be around £6.7m with full funding for teaching costs and additional student support costs or £2.0m if only student support costs (including fee support) are funded. An easement in the MaSN of 1,000 would represent an increase of around 3.7% in Northern Ireland full time Higher Education places.

Summary

41. To summarise the above evidence, the main points emerging in favour of increasing the number of local full-time undergraduate places are as follows.

- Overall there are 12,287 Northern Ireland domiciled full-time undergraduate students that leave Northern Ireland for their Higher Education studies. This represents 28% of all Northern Ireland domiciled full-time undergraduate students. However, only 4% of those that leave had indicated a Northern Ireland institution as being their first choice during the UCAS application process.
- In the absence of further full-time undergraduate places being made available locally or a reduction in the pool of potential applicants,

successfully widening participation to groups currently underrepresented can only be achieved by a commensurate fall in the numbers from other groups studying on full-time undergraduate courses at Northern Ireland institutions.

- Despite significant increases in the number of full-time undergraduate places at Northern Ireland institutions in recent years, the proportion of first year Northern Ireland domiciled students that declare themselves as either Protestant or Catholic has remained markedly static. This suggests that the increase in enrolments was not biased in favour of either religious grouping.
- The introduction of variable deferred fees from September 2006 may increase the propensity for students to study closer to home. If this happens without a commensurate increase in the number of full-time undergraduate places at Northern Ireland institutions, this could lead to a rise in entry requirements. This, in turn, could displace less well qualified students who tend to be drawn more from the lower Socio Economic Classification (SEC) groups.

42. The main points emerging against further expansion of full-time undergraduate places are as follows.
    - The vast majority (96%) of those that leave Northern Ireland to undertake their undergraduate studies do so to secure their first choice course and institution as revealed during the application process. On the basis of this evidence it is not clear that additional Northern Ireland places would stem the outflow of students significantly.
    - The 18-20 year old population is projected to decline from 2005 by 4% between 2005 and 2010. This is likely to ease demand for additional Higher Education places.
    - Research work suggests that a significant proportion of Northern Ireland domiciled graduates are working in jobs that do not make full use of graduate skills.

- The proportion of NI domiciled applicants not accepted for a University place has fallen from 28.6% in 2000/01 to 22.5% in 2003/04. There might be a risk, all other things being equal, that creating more Higher Education places would result in falling entry standards.
- Further expansion in the number of full-time undergraduate places would require further public expenditure which could have been used in other areas that are also of importance to society.

Conclusion

43. On the basis of the available evidence, the case in favour of increasing the number of locally available full-time undergraduate places is not overwhelming. The evidence does not suggest that more places on their own would result in a significant reduction in the number of Northern Ireland domiciled students who currently study Higher Education outside Northern Ireland. The young adult population is about to enter a period of decline and the proportion of Northern Ireland domiciled applicants who are not accepted for a Higher Education place is falling. This could generate room to further widen access to Higher Education without the need for more overall places. Creating further places would risk bringing about a drop in entry standards. The market signals in terms of unmet demand for graduate skills are mixed and it may be that the skill needs of the Northern Ireland economy would be better met by using the resources for workforce development through part-time Higher Education and for progression from Level 3, including Modern Apprenticeships.

44. In light of this evidence, the case for securing funding for further full-time undergraduate places in Northern Ireland is not convincing when balanced against other, competing demands. However, it must be recognised that the context in which this assessment has been made does not remain static and must, therefore, be kept under review. In

particular the introduction of variable deferred fees could influence more Northern Ireland domiciled students to undertake their Higher Education studies closer to home. This in turn could push out the more marginal students who tend to be drawn more heavily from deprived backgrounds.

45. The Department is putting in place a number of research studies to ensure that this and related issues are monitored and that the evidence base continues to be strengthened. In addition the Department has recently issued and consulted on a draft Skills Strategy for Northern Ireland which, as it unfolds, will provide improved information on the skills needs of the Northern Ireland economy. The Department will continue to assess the economic case for additional Higher Education places as this information comes forward, including whether the needs of the Northern Ireland economy would be better served by more part-time or full-time places.

Responding to this Document

46. This document sets out evidence currently available in relation to the number of full-time undergraduate Higher Education places in Northern Ireland. It sets out the Department's position in response to that evidence and what further work it plans to engage in to ensure that its position is keep under informed review.

47. The Department for Employment and Learning welcomes comments in relation to this document. Comments should be made by mail, fax or email to: Ian Hamilton, Department for Employment and Learning, Room 407, Adelaide House, 39-49 Adelaide Street, Belfast BT2 8FD; fax: 028 9025 7701; Tel: 028 9025 7721.

References

- Harmon and Walker (2000), *Education and Earnings in Northern Ireland*

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Department of Employment and Learning

Questions from Mr David McNarry MLA

Mr McNarry asked the following questions at the Northern Ireland Assembly sub-group meeting on the Economic Challenges Facing Northern Ireland on 3 August 2006 and Dr McGinley agreed to provide answers.

Mr McNarry

> *"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?*
>
> *"Does the welfare state have a major or minor impact on attracting people to improve their learning and skills?"*

DEL Response

1 The key data sources on employment and wages/salaries on the` Northern Ireland Labour Market are the Labour Force Survey (LFS) and the Annual Survey of Hours and Earnings (ASHE) which are operated by the Department of Enterprise, Trade and Investment (DETI).

2 LFS and ASHE are sample surveys which ask a range of questions about economic activity, employment, earnings, and hours worked. As surveys the results will be subject to a degree of sampling variability and analysis are restricted to the range of questions asked. Key results are published on the DETI website (www.detini.gov.uk). Figures quoted below are derived from the most recent published survey results unless otherwise states (LFS: March-May 2006; ASHE: 2005). Data are also given from an answer given by the National Statistician to a House of Lords Question on 3 May 2006 (www.publications.parliament.uk/pa/ld199697/ldhansrd/pdvn/lds06/text/60503w02.htm, referenced below as *Hansard*)

Background[1]

3 *Employment*. The current "key statistics" for the Northern Ireland labour market show that of just over 1 million (1,059,000) people of working age[2], some 733,00 are in employment. In addition approximately 24,000 people above working age are in jobs. The working age employment rate is 69.2%: this is some 5 percentage points below the UK average (74.6%).

1 Source for data in this section: LFS March-May 2006

2 Working age is defined as 16-59 (women) and 16-64 (men).

4 *Unemployment*. The current NI unemployment rate, as measured by LFS, is 4.5% (36,000 people). The NI unemployment rate is lower than the UK average (5.4%) and NI has the joint second lowest unemployment rate of UK regions. NI unemployment is also low in an EU context (EU25 average – 8.3%).

5 *Economic Inactivity.* Figures from LFS show that there are some 295,000 people of working age in NI who are economically inactive. This corresponds to an inactivity rate of 27.4%, which is significantly higher than the UK average rate (21.1%).

Part-Time Work, Reasons for Not Working, Earnings, and Barriers to Employment

6 *Part-Time Work*. In Spring 2005, there were 155,000 people[3] in part-time employment in NI, accounting for more than a fifth (21%) of all those in employment and a quarter (25%) of all employees. Women accounted for 81% of part-time workers. Only a small proportion (8%) of part-time workers said that they worked part-time because they couldn't find a full-time job.

7 *Reasons for Not Working.* The economically inactive are asked in the Labour Force survey if they want a job or not; and if they do not want a job the reasons for this. Of the 295,000 economically inactive people of working age, some 40,000 (14%) would like a job. The remaining 256,000[4] do not want a job. The main reasons for not wanting a job include long-term illness (31%); study (31%); and family/caring responsibilities (27%).

8 *Disability and Employment*. The association between disability and employment is shown by considering the employment rates of disabled and non-disabled people. In the three months to February 2006, the employment rate of non-disabled people of working age in Northern Ireland was 78%[5] (UK average – 80%). In contrast, the employment rate for disabled people in NI was 35% (UK average – 50%). Thus more than three-quarters of non-disabled people are in employment whereas only just over a third of disabled people have a job.

9 *Earnings*. In 2005, median gross weekly earnings for all employees in NI was £320.6, compared to a figure of £349.6 for the UK as a whole[6]. Figures are not immediately available for the earnings of disabled and non-disabled employees for Northern Ireland, but data from the UK as a whole show that for the three months to the end of February 2006 the mean gross hourly earnings of disabled employees of working age was 91% of that of non-disabled people – a difference of around £1 an hour (£10.25 per hour cf £11.22)[7].

3 *Source: Labour Market Bulletin Issue 19, p10.*

4 *Source: LFS. Figures may not add due to rounding.*

5 *Source: Hansard 3 May 2006 (House of Lords).*

6 *Source: ASHE*

7 *Source: Hansard*

10 *Barriers to Employment*. There are no data immediately to hand in relation to progression up the promotion ladder. Research commissioned by DEL suggests that there are a number of barriers faced by clients when trying to find a job[8]. These included

- Personal Attributes such as prior employment; skills and qualifications held; confidence etc;
- Personal Circumstances such as health; caring responsibilities; drug/alcohol misuse etc;
- Structural Aspects such as the benefit system; childcare provision; transport infrastructure etc; and
- Managing the Labour Market eg Jobsearch skills; presentation; CV skills etc.

Impact of Welfare State on Attracting People to Improve Their Learning and Skills

11 A central plank of DEL's Skills Strategy is to move those who are detached from the labour market towards it and hence improve their employment opportunities. Individuals differ in their need and whilst some may need minimal intervention – perhaps only facilitation – others will require more focussed training. DEL attempts to tailor the intervention to the needs of the client not only to suit the individual concerned, but also to attempt to maximise the resources it has at its disposal.

12 The main emphasis so far has been on the various New Deal programmes, especially the New Deal for 18-24 Year Olds and the New Deal 25+, both of which are focussed on claimants of Jobseeker's Allowance (JSA). This approach is being extended to Incapacity benefit (IB) claimants through Pathways to Work Pilots which have started in a number of offices.

13 Data for the performance of New Deal are given in the Annex[9]. From commencement of New Deal in 1998, some 61,000 starts have occurred on New Deal for 18-24 Year Olds and more than 68,000 on New Deal 25+. There have been more than 29,000 moves to unsubsidised employment from New Deal, and the majority of these (86%) are regarded as "sustained" (that is, the data suggest that have lasted for a period of at least 13 weeks).

14 Training and skills learning opportunities are available though all elements of New Deal to a greater or lesser extent. Those closest to the labour market can be placed in subsidised employment (there have been nearly 9,000 starts through this route since the programme started) and a training element is available on a voluntary basis on this option. There have been more than 7,000 starts through the Education and Training Options of both New Deals, and these options have a high level of training content.

8 *Deloitte and Touche "Research into needs and barriers in the jobs market faced by DEL clients" DEL February 2003.*

9 *Source: DEL. Detailed New Deal Statistics are published regularly through the DEL website www.delni.gov.uk/index/statistics-and-research/labour-market/new-deal-statistics/new-deal-statistical-bulletins-2005-2006.htm*

Annex: New Deal Statistics

(a) Programme Starts

	New Deal 18 to 24	New Deal 25+
Apr/Jun 98 to Mar 06	60,966	68,388
Apr 05 to Mar 06	6,807	5,842

(b) Moves into Unsubsidised Employment (1)

	New Deal 18 to 24	New Deal 25+
Apr/Jun 98 to Mar 05	17,132	12,206
of which sustained (2)	14,539	10,781
Apr 04 to Mar 05	1,988	1,250
of which sustained (2)	1,660	1,071

(c) Options Started (3)

	New Deal 18 to 24	New Deal 25+
Apr/Jun 98 to Mar 06	16,010	24,459
Apr 05 to Mar 06	2,056	2,123

(d) Employment Option / Employer Subsidy / Self Employment Route Starts (3)

	New Deal 18 to 24	New Deal 25+
Apr/Jun 98 to Mar 06	3,383	5,576
Apr 05 to Mar 06	227	356

(e) FTET / ETO Starts (3)

	New Deal 18 to 24	New Deal 25+
Apr/Jun 98 to Mar 06	5,484	1,553
Apr 05 to Mar 06	1,150	245
Souce: DEL		

Notes

(1) Those recorded by the Department as having moved or having been placed into unsubsidised employment, plus those who have been recorded as having terminated their JSA claim in order to go into a job within 13 weeks of leaving New Deal. This will undercount the total number going into a job as some participants who move into a job will not, for whatever reason, record this as the reason for termination of their JSA claim.

A participant is only ever counted once as moving into unsubsidised employment.

(2) A participant is considered to have sustained employment if they remain in the same spell of employment for 13 weeks or more.

(3) Counts those participants who moved onto an Option immediately on leaving Gateway.

4.10 Population of working age[1]: by highest qualification[2], spring 2005

Percentages	Degree or equivalent	Higher education qualifications[3]	GCE A level or equivalent[4]	GCSE grades A*-C or equivalent	Other qualifications	No qualifications
United Kingdom	17.6	8.4	23.6	22.9	12.5	14.1
North East	12.4	8.2	25.3	25.4	13.0	15.2
North West	14.8	8.9	24.4	24.9	10.5	15.5
Yorkshire and the Humber	14.5	7.2	24.0	24.3	14.1	15.3
East Midlands	14.9	8.1	25.6	22.3	13.3	14.8
West Midlands	14.8	8.2	22.9	24.5	11.9	16.6
East	17.5	7.5	23.4	25.7	12.7	12.6
London	26.1	5.9	17.2	17.1	18.5	14.2
South East	20.5	8.7	24.4	23.9	11.8	10.0
South West	16.6	9.6	25.2	25.1	12.2	10.5
England	17.9	8.0	23.2	23.3	13.2	13.6
Wales	15.1	8.9	21.8	25.3	10.7	17.2
Scotland	17.6	12.8	29.0	17.9	8.4	13.8
Northern Ireland	15.0	8.0	23.4	21.9	6.3	24.2

1 Males aged 16 to 64 and females aged 16 to 59.

2 For information on equivalent level qualifications see Notes and Definitions.

3 Below degree level.

4 Includes recognised trade apprenticeship.

Source: Department for Education and Skills, from the Labour Force Survey

Table from Regional Trends 39, avaiable online at www.statistics.gov.uk/downloads/theme_compendia/Regional_Trends_39/RT39_EduTrain.pdf

CONSIDERATION OF THE OPTIMUM NUMBER OF FULL TIME UNDER GRADUATE PLACES IN NORTHERN IRELAND HIGHER EDUCATION

A Position Paper

You will have noted Employment and Learning Minister Angela Smith's speech at * Royal School on Friday when she invited comments on full-time under graduate places at local universities. Please see the paper and press release attached.

The Department for Employment and Learning welcomes comments in relation to this document. Comments should be made by mail, fax or e-mail to:-

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Consideration of the Optimum Number of Full-time Undergraduate Places in Northern Ireland Higher Education

A Position Paper

Introduction

1. There has been increasing public debate in relation to whether there are too many or too few full-time undergraduate places in Northern Ireland. Those that are in favour of creating more places often suggest that this would have a positive impact on widening access to groups currently under-represented in Higher Education. It is argued that more graduates will be required to meet the future skill needs of the Northern Ireland economy. It is also suggested that if more full-time undergraduate places were available locally, this might stem the flow of students who currently leave Northern Ireland for their Higher Education experience, many of whom do not return after graduation.

2. Conversely, there are those who would suggest that Northern Ireland is over-endowed with full-time undergraduate places. They often argue that there are already Northern Ireland graduates in jobs that are not well suited to graduate skills and that more graduates would simply exacerbate this situation. While they may accept that increasing the number of places could indeed widen access to groups that are currently under-represented in Higher Education, this, they suggest, might also be accompanied by a reduction in entry standards and a devaluation in the perceived value of a degree.

3. An issue that is often not brought to the fore in this debate is the public expenditure costs associated with an expansion of places. However this is an important consideration for a society which also places value on many other Government funded services and on the importance of meeting skills needs at qualification levels below higher education.

4. The degree of public consensus in relation to an optimum number of full-time undergraduate places in Northern Ireland appears limited. Furthermore, the issues that underpin the debate are often complex and profound. The purpose of this paper is to further inform discussions in this area by setting out and providing analysis of the relevant evidence that currently exists. It also examines the wider strategic context and how changes in that, especially in relation to the introduction of variable deferred fees, might impact on the need for more places locally. Finally, the paper sets out what further work the Department intends undertaking to ensure that the position is both monitored and better understood and invites comments from the public across the related issues.

The Strategic Context

5. The Department recognises the increasingly important role Higher Education plays in supporting economic development by providing a well educated workforce adaptable to the needs of the changing economic environment. The Department also wishes to ensure that access to Higher Education is available to all who have the potential to benefit from it, regardless of background. It has committed, in its Corporate Plan 2005 – 08, to develop and implement a Northern Ireland regional strategy on widening access, extending the remit beyond Higher and Further education.

6. However, when considering the number of full-time undergraduate places in Northern Ireland, it is important to ensure that there is complementarity with other policies that also aim to strengthen the economy and widen access to skill enhancement and the development of human capital. At the broadest level there needs to be consideration of whether increasing full-time undergraduate places, which are taken predominantly by young adults, is the most appropriate approach to supporting economic development. There is also the question of whether such an increase would send the right signal to those considering alternative forms of learning. For example the Department could, as an alternative, encourage further expansion of part-time Higher Education, a route which tends to draw in more mature students and which can reduce the fear of debt for those from low income backgrounds.

7. In addition, the Department wishes to ensure consistency between its policy in relation to the number of local full-time undergraduate places and other relevant policies including the promotion of Modern Apprenticeships. If by increasing the number of local full-time undergraduate places the effect was to draw students into Higher Education who were less well qualified, this may reduce the numbers enrolling for Modern Apprenticeships. The latter may, in fact, be more suited to their talents and abilities. The Modern Apprenticeship route does not preclude progression to Higher Education and the Department would wish to develop such progression routes for the more able Modern Apprenticeship candidates.

Background

8. In 2003/04, there were 12,699 full-time undergraduate first year enrolments on Higher Education courses at Northern Ireland institutions, a 23% increase from 1998/99. Over the same period the number of first year enrolments on part-time undergraduate courses increased by 35%, rising from 9,974 to 13,486. It should also be noted that over a quarter of Northern Ireland domiciled first year enrolments on Higher Education courses are at institutions in Great Britain and the Republic of Ireland.

9. To a significant extent the debate has centered on the number of full-time Higher Education places which Government funds the institutions to provide. A cap on these numbers has been in place since 1994, when in order to constrain escalating public expenditure on demand-led student support costs, Government introduced a UK-wide policy of consolidating the numbers of award holders in Higher Education. As a result, expansion of full-time enrolments has been limited. This policy was enforced through the setting of an annual cap, known as the maximum aggregate student number (MASN), on the numbers of award holders (mainly full-time undergraduate students) which individual Higher Education institutions could enrol.

10. This cap, now referred to as the Maximum Student Number (MaSN) continues to be applied by the Department for Employment and Learning to all home and European Union full-time university undergraduate students. It does not apply to full-time undergraduate students from outside the European Union, to part-time undergraduates or to postgraduate students, the universities are free to recruit as many such students as they wish. A MaSN allocation also applies to full-time, but not part-time, Higher Education places in the 12 Further Education colleges that are approved to deliver full-time Higher Education provision.

11. While the existence of the MaSN has successfully acted to constrain the number of full-time undergraduate Higher Education places in Northern Ireland, its level has been lifted in recent years to allow for further expansion: -

    a. Since 1999, the Department has allocated some 4,130 additional full-time equivalent (FTEs) student places of which 1,170[1] went to Further Education Colleges and 2,960 to the university sector. Almost all the places in the universities were full-time.

    b. The Department is not the only government department funding places in the university sector. The Department of Health, Social Services and Public Safety (DHSSPS) funds some 1,000 full-time undergraduate places for Allied Health Professional (AHPs) courses, while also funding some 2,300 pre-registration student nursing places. DHSSPS has expanded considerably both these courses in recent years.

The Position Elsewhere in the UK

12. The MaSN cap was abolished in England in 2002/03. The reason for the different approach there lies in the different experiences of the two territories. The experience of the Higher Education Funding Council for England (HEFCE), in dealing with a large number of institutions, was that a significant proportion tended to err on the side of caution and under-recruit. The result was that the total number of award holders was consistently less than expected. In addition, the policy in England is to fund growth towards the 50% participation target and significant funding has been made available in England to finance subsequent growth in student numbers.

13. It should be pointed out that, even after the abolition of the MaSN cap in England, public expenditure growth arising from increases in full-time undergraduate places continues to be managed at the macro level. The Department for Education and Skills's (DfES) grant letter to the Higher Education Funding Council for England (HEFCE) states that the student support costs of any growth in student numbers above the planned and funded trajectory will be met by reducing HEFCE's grant.

14. The position in Wales closely mirrors that in England. In Scotland, the Scottish Executive continues to place a limit on the overall full-time undergraduate student enrolments.

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1 *The 1,170 additional places allocated to the Further Education Colleges includes 300 pilot Foundation Degree full-time equivalent places which were allocated to the university led consortia who were delivering Foundation Degree pilots. The universities then decided how many places each of their Further Education partners should receive.*

Analysis of the Evidence

15. In order to establish the merits of tightening, retaining, easing or abolishing the current cap on full-time undergraduate places in Northern Ireland, there are a number of key issues that require careful consideration. These are discussed below and include:

- the extent of continued demand for higher level skills within the economy;
- issues relating to widening access to currently underrepresented groups;
- consideration of the equality impact of the cap on full-time undergraduate places in Northern Ireland;
- demand for full-time undergraduate Higher Education places in Northern Ireland and the extent to which the current cap prevents demand being met;
- the possible impact on supply of local Higher Education places if the current cap is eased or abolished; and,
- the potential impact on public expenditure.

Market demand for Higher Level Skills

16. The significant rates of return associated with Higher Education are well documented. Harmon and Walker in "Education and Earnings in Northern Ireland" (2000) noted that returns to Higher Education, in terms of a graduate's extra earning power, are high. Furthermore, they found no evidence of a decrease in this return over time despite significant growth in Higher Education participation. They took the view that these sustained high rates of return indicated the existence of barriers associated with entry to Higher Education and suggested, at that time, that the limit on the number of local Higher Education places could be a contributory factor. More recent evidence from the Northern Ireland Labour Force Survey (2003) continues to show a marked pay advantage associated with being a graduate. Those data show that the earnings of graduates working in Northern Ireland were around 58% higher than for non graduates. Further, growth in the demand for graduates is set to continue. The Institute for Employment Research forecasts that the number of jobs held by graduates in Northern Ireland will increase by around 35% over the decade to 2010. In comparison, overall Northern Ireland employment growth has been forecast at 6% over the corresponding period.

17. Set against this positive picture is the emerging literature on graduate "overeducation". It examines the extent to which graduates are employed in occupations which do not make full use of the skill set they develop while at university. Work by McGuinness (2004) suggests that around 26% of Northern Ireland domiciled graduates were working in jobs that did not require a degree three years after leaving university. There is also evidence emerging that in recent years the rates of return associated with possessing a degree are beginning to decline (Elias and Purcell, forthcoming).

18. It is also important to recognise that increasing the number of Higher Education places in Northern Ireland may not subsequently translate into more graduates being retained in the local labour market. Issues other than location of Higher Education study impact upon an individual's choice of employment location. For example, many graduates migrate to the South East of England from other parts of the United Kingdom to secure higher salaries.

Widening Access

19. Widening participation in Higher Education by students from groups who are currently under-represented is one of the Department's key strategic goals. Since the year 2000 the Department has been addressing this issue through a number of policy directions and a range of specific funding mechanisms including:

- special project funding specifically aimed at allowing the universities to test their strategies and approaches to making access to Higher Education available to under-represented groups, and to develop partnerships with schools with traditionally low levels of participation in Higher Education;
- a widening participation premium which is paid to the universities for students from disadvantaged backgrounds, the allocation of which is based on non-fee paying students;
- a requirement on the part of universities to produce widening participation strategies and action plans which detail activities, targets and performance indicators regarding the recruitment, retention and progression of students from under-represented groups; the Action Plan provides a means by which Higher Education institutions can account for their premium funding expenditure.

20. In addition, a condition that will be placed on any institution wishing to charge variable deferred tuition fees will be that they submit an Access Agreement to demonstrate how they will meet challenging targets to improve widening participation.

21. In relation to promoting access for those from the lower Socio Economic Classifications (SECs), Northern Ireland performs at least as well as other countries of the United Kingdom. In 2004/05, 25% of accepted applicants to degree courses at NI institutions were from SEC groups 5, 6 & 7, compared to 23% at English institutions, 24% at Scottish institutions and 25% at Welsh institutions. Despite this good performance, those from the lower SEC groups in Northern Ireland continue to be underrepresented in Higher Education.

22. It is important, in this context, to consider how the MaSN might impact on the Department's objective of widening access. We know that around 28% of NI domiciled full-time under-graduate students are enrolled on Higher Education courses in institutions outside Northern Ireland. An analysis of Universities and Colleges Admissions Service (UCAS) application data indicates that those students that do leave Northern Ireland tend to be drawn much more heavily from the higher SEC groups. In addition, the vast majority of those that leave do so to secure their first choice course as revealed during the application process. On the other hand, those applicants who are not successful in attaining a university place either in Northern Ireland or elsewhere, tend to be more heavily drawn from the lower SEC groups, albeit that those applicants "not accepted" tend also to possess significantly lower average A level scores. On the basis of this evidence it might be argued that the adverse impact of a cap which constrains locally offered places will be more heavily felt by those from the lower SEC groups. They are less likely to migrate for their Higher Education experience, perhaps because of affordability constraints, but are more likely to be amongst the "not accepted" applicants.

23. A study undertaken by Pat McGregor et al ('Home and away: graduate experience from a regional perspective', 2002) also has relevance. He examined a cohort of Northern Ireland domiciled graduates to cast light on the issue of student flows. He noted that if more of the

costs associated with participating in Higher Education are passed to the student, more students are likely to want to study closer to home and within Northern Ireland. The paper goes on to say ‘the greater competition for places will favour the higher qualified, currently those who are most likely to leave. Chances are the less well qualified, who are also from the lower social classes, may find it increasingly difficult to find a place in Higher Education in Northern Ireland’. McGregor recommended that a larger number of Higher Education places should be made available within Northern Ireland to ensure access for those from the lower socio-economic groups. This issue will require careful monitoring particularly as variable deferred fees are introduced both in Northern Ireland and elsewhere from 2006.

24. If overall numbers are capped and the pool of potential applicants does not reduce, any success achieved through actions by Government or the institutions to widen participation among lower socio-economic groups must be at the expense of those in categories already well represented in Higher Education. To the extent that these people are well qualified and from relatively well off backgrounds, they are all the more likely to seek their Higher Education outside Northern Ireland and are, correspondingly, less likely to return after graduation.

Section 75 Equality Issues

25. In relation to the Section 75 equality issues, there is a long standing contention that the existence of the MaSN cap operates unfairly to the disadvantage of specific groups, particularly Protestants. In this regard it should be clear that all Northern Ireland institutions in the university sector are designated as public authorities under Section 75 of the Northern Ireland Act 1998 which prohibits discrimination on a number of grounds including religion and political outlook. Also, all Northern Ireland institutions have developed Equality Schemes, which have been approved by the Equality Commission, and which extend to the institutions’ admissions policies.

26. Secondly and more broadly, it is the case that a majority of Northern Ireland domiciled students who study locally are Catholics, while those who opt to leave to study elsewhere are drawn more from the Protestant community. Data gathered from the annual School Leavers’ Survey shows that of those school leavers entering Higher Education in NI, in 2001/02, 58% declared their religion as Roman Catholic and 37% as Protestant. Of those entering Higher Education at Great Britain institutions in 2001/02, 34% declared their religion as Roman Catholic and 53% as Protestant. There may be a feeling that the MaSN cap has created or contributed to this state of affairs.

27. The following table sets out the religion of full-time undergraduate students enrolled at Higher Education institutions in Northern Ireland since 1997/98.

NI domiciled full-time undergraduate first year students enrolled on courses at Northern Ireland Higher Education Institutions by religion 1997/98 – 2003/04

Academic Year	Protestant	Roman Catholic	Other	Not known/ unavailable	Total
1997/98	2,274	3,120	177	1,920	7,491
1998/99	2,323	3,295	212	1,478	7,308
1999/00	2,477	3,608	217	1,365	7,667
2000/01	2,755	4,265	268	1,240	8,528
2001/02	2,920	4,231	245	1,720	9,116
2002/03	3,472	4,998	335	872	9,677
2003/04	3,349	4,657	340	1,214	9,560

Source: HESA

Figures for 1997/98 – 1999/00 relate to a snapshot of enrolments at 1st December in the relevant academic year and figures for 2000/01 – 2003/04 relate to a full-year count. Religious affiliation is not a mandatory question for students and has a high non response rate.

28. Between 1997/98 and 2003/04 there was a 28% increase in the number of full-time Northern Ireland domiciled first year students enrolled at Higher Education institutions in Northern Ireland. Over the same period the proportion of first year Northern Ireland domiciled students that declared themselves as either Protestant or Catholic remained markedly static over the period (calculated as a proportion of those that declared a religious affiliation). This would suggest that the increase in enrolments over these years was not biased in favour of either religious grouping. The experience in the Further Education sector, in relation to full-time provision of Higher Education level courses, has been similar.

29. It is not clear how raising or abolishing the MaSN cap would act to influence the propensity for Protestants to leave for their Higher Education experience, particularly if most leave as a result of a positive personal choice to do so. While UCAS does not collect data by religion, its Higher Education data show that the vast majority of those students that leave Northern Ireland do so to secure their first choice course and location as revealed during the application process. The students who leave tend, on average, to be better qualified in terms of 'A' level scores than those that remain in Northern Ireland. As rehearsed above, the introduction of variable deferred fee proposals may impact upon student choices and might lead to fewer students going away, including fewer from the Protestant community. However, their choice to remain in Northern Ireland might displace students from the lower SEC groups unless there is a commensurate increase in the number of Higher Education places available locally.

Demand for HE Places

30. In terms of assessing the possible impact of the MaSN cap on economic development; widening access to Higher Education and on calculating the Public Expenditure implications of any easement, it is important to consider the extent to which the MaSN acts as a constraint on take up of Higher Education in Northern Ireland. A significant proportion of Northern Ireland's young adults already participate in Higher Education. The latest comparable data show that the Age participation Index[2] for Northern Ireland, which measures participation rates in full-time Higher Education, was significantly higher than the Great Britain average.

2 *The API is calculated by expressing all Northern Ireland domiciled young entrants (aged under 21) to full-time higher education (in the United Kingdom or Republic of Ireland) as a percentage of the 18 year-old population of Northern Ireland.*

31. In England, participation is now measured using the Higher Education Initial Participation Rate (HEIPR) which calculates participation across both full and part-time Higher Education courses. On that basis the participation rate for England stood at 43% in 2003/04. It is estimated that the equivalent figure for Northern Ireland is at least 57%. In terms of the overall full-time undergraduate enrolment, the number of Northern Ireland domiciled students has risen significantly over the last number of years. For example, in 2003/04, the latest year for which data is available, the overall number of Northern Ireland domiciled full-time undergraduates was 43,145 up 15% since 1998/99. This growth has been driven by a mixture of factors including:

- increases in the young adult population;
- more students staying on in post compulsory education;
- increases in the subsequent attainment rates at 'A' level or equivalent; and,
- a significant expansion in the number of places available locally.

32. Looking forward, the nature of these growth drivers may change. In particular, the Northern Ireland population in the age range 18 to 20 is projected to peak in 2005 and fall thereafter (a fall of 4% is projected between 2005-2010). Already around 95% of those pupils taking 'A' levels achieve two or more at grades A – E and clearly the room to expand this proportion further is constrained. Added to this, there is currently little planned provision for additional Higher Education places beyond 2004/05. However, there may be potential for growth in the number of young people remaining in post compulsory education and vocational training. In 2003/04, 74.3% of 16 and 17 year olds in Northern Ireland participated in full-time education or vocational training in schools and Further Education Colleges, up from 69.5% in 1999/00. This has the potential to grow further, particularly if the recently introduced Education Maintenance Allowances deliver the positive impact on staying on rates that was experienced in earlier pilots in Great Britain.

33. Also related to the demand picture, it is interesting to note that the proportion of Northern Ireland domiciled applicants not accepted for a University place has been declining in recent years. In 2000/01, 28.6% of Northern Ireland domiciled applicants were not accepted into a university place compared to 22.5% in 2003/04. Given this picture it could be argued that if the number of places increases, there is a risk that entry standards could fall.

34. The demand for places in Northern Ireland institutions is influenced by a similar set of factors as those outlined above but is also subject to a number of additional issues such as:

- the desire of Northern Ireland domiciled students to undertake their Higher Education studies outside Northern Ireland; and
- the extent to which Northern Ireland Institutions attract enrolments from other United Kingdom and European Union students.

In relation to the former, the proportion of Northern Ireland domiciled full-time undergraduate students studying outside Northern Ireland has been in decline for the last number of years, but remains significant. In 2003/04 28% of Northern Ireland domiciled full-time undergraduate students left to study in Great Britain, down from 35% in 1998/99. However, the proportion of students that leave Northern Ireland is considerably higher than for England and Scotland where 5% and 6% respectively of their full-time undergraduate population migrate for their

Higher Education experience. In Wales, like Northern Ireland, the proportion of students migrating is relatively high at 38%.

35. As discussed earlier, the vast majority (96%) of those that leave Northern Ireland for their Higher Education experience do so to secure their first choice course and location. On average those that leave possess higher entry qualifications than those that remain in Northern Ireland. Furthermore, it is not the case that vast numbers of students leave Northern Ireland with lower entry qualifications. For example, if we consider those Northern Ireland domiciled students that were accepted onto Higher Education courses with entry qualifications equivalent to three 'D' grades at 'A' level or less, 18% of those that went to English institutions fall into this category compared to 14% of those who attended the University of Ulster. Given this evidence and in the current climate, it is not clear that the current outflow of students would be significantly stemmed by the creation of additional places locally.

36. While the scale of the impact cannot be determined, the introduction of variable deferred fees may influence student choices and more may wish to study within Northern Ireland. In other words, while the introduction of the variable deferred fees might not impact on overall demand for Higher Education amongst Northern Ireland domiciled students, it could lead to a rise in the demand for places locally.

37. The number of Higher Education students from other United Kingdom regions and from the European Union studying in Northern Ireland institutions is relatively small accounting for 8% of full-time undergraduate enrolments.

Supply of HE Places in NI

38. The extent to which the Universities and Further Education colleges expand provision in response to any easement in MaSN is likely to be heavily influenced by financial considerations and a desire to retain academic standing. It is unlikely that universities or colleges would recruit significant numbers of additional students if they were required to do so at a loss or if it meant that they had to significantly lower entrance requirements. In any case, the Department would not wish to promote such behaviour in the Higher Education sector.

Public Expenditure Implications of Easing/Abolishing MaSN

39. The magnitude of additional Public Expenditure is likely to be directly influenced by a number of factors including:

- the extent to which there is unmet demand for Higher Education places in Northern Ireland;
- if there is unmet demand, whether that is made up of demand from those who would otherwise have left for their Higher Education studies, in which case their student support costs would have been met regardless of whether they study in Northern Ireland or elsewhere;
- the extent to which any unmet demand is from students that otherwise would not have taken up an Higher Education place elsewhere. In that case, their student support costs would present an entirely additional burden on the public purse unless they would have been engaging in some other publicly funded Further Education or training route;

- the extent to which the MaSN is eased and whether government funds the additional teaching costs associated with any extra places that universities or colleges subsequently create;
- the subject areas where additional provision is created, the unit costs of which vary; and
- the response of the Northern Ireland Universities and Further Education colleges to any MaSN easement or abolition in terms of number of additional places they choose to generate.

40. Taking account of these issues, it is estimated that for each additional 1,000 full-time undergraduate Northern Ireland places generated as a result of an easement in the MaSN cap, the maximum cost would be around £6.7m with full funding for teaching costs and additional student support costs or £2.0m if only student support costs (including fee support) are funded. An easement in the MaSN of 1,000 would represent an increase of around 3.7% in Northern Ireland full time Higher Education places.

Summary

41. To summarise the above evidence, the main points emerging in favour of increasing the number of local full-time undergraduate places are as follows.

• Overall there are 12,287 Northern Ireland domiciled full-time undergraduate students that leave Northern Ireland for their Higher Education studies. This represents 28% of all Northern Ireland domiciled full-time undergraduate students. However, only 4% of those that leave had indicated a Northern Ireland institution as being their first choice during the UCAS application process.

- In the absence of further full-time undergraduate places being made available locally or a reduction in the pool of potential applicants, successfully widening participation to groups currently underrepresented can only be achieved by a commensurate fall in the numbers from other groups studying on full-time undergraduate courses at Northern Ireland institutions.
- Despite significant increases in the number of full-time undergraduate places at Northern Ireland institutions in recent years, the proportion of first year Northern Ireland domiciled students that declare themselves as either Protestant or Catholic has remained markedly static. This suggests that the increase in enrolments was not biased in favour of either religious grouping.
- The introduction of variable deferred fees from September 2006 may increase the propensity for students to study closer to home. If this happens without a commensurate increase in the number of full-time undergraduate places at Northern Ireland institutions, this could lead to a rise in entry requirements. This, in turn, could displace less well qualified students who tend to be drawn more from the lower Socio Economic Classification (SEC) groups.

42. The main points emerging against further expansion of full-time undergraduate places are as follows.

- The vast majority (96%) of those that leave Northern Ireland to undertake their undergraduate studies do so to secure their first choice course and institution as revealed during the application process. On the basis of this evidence it is not clear that additional Northern Ireland places would stem the outflow of students significantly.
- The 18-20 year old population is projected to decline from 2005 by 4% between 2005 and 2010. This is likely to ease demand for additional Higher Education places.
- Research work suggests that a significant proportion of Northern Ireland domiciled graduates are working in jobs that do not make full use of graduate skills.
- The proportion of NI domiciled applicants not accepted for a University place has fallen from 28.6% in 2000/01 to 22.5% in 2003/04. There might be a risk, all other things being equal, that creating more Higher Education places would result in falling entry standards.
- Further expansion in the number of full-time undergraduate places would require further public expenditure which could have been used in other areas that are also of importance to society.

Conclusion

43. On the basis of the available evidence, the case in favour of increasing the number of locally available full-time undergraduate places is not overwhelming. The evidence does not suggest that more places on their own would result in a significant reduction in the number of Northern Ireland domiciled students who currently study Higher Education outside Northern Ireland. The young adult population is about to enter a period of decline and the proportion of Northern Ireland domiciled applicants who are not accepted for a Higher Education place is falling. This could generate room to further widen access to Higher Education without the need for more overall places. Creating further places would risk bringing about a drop in entry standards. The market signals in terms of unmet demand for graduate skills are mixed and it may be that the skill needs of the Northern Ireland economy would be better met by using the resources for workforce development through part-time Higher Education and for progression from Level 3, including Modern Apprenticeships.

44. In light of this evidence, the case for securing funding for further full-time undergraduate places in Northern Ireland is not convincing when balanced against other, competing demands. However, it must be recognised that the context in which this assessment has been made does not remain static and must, therefore, be kept under review. In particular the introduction of variable deferred fees could influence more Northern Ireland domiciled students to undertake their Higher Education studies closer to home. This in turn could push out the more marginal students who tend to be drawn more heavily from deprived backgrounds.

45. The Department is putting in place a number of research studies to ensure that this and related issues are monitored and that the evidence base continues to be strengthened. In addition the Department has recently issued and consulted on a draft Skills Strategy for Northern Ireland which, as it unfolds, will provide improved information on the skills needs of the Northern

Ireland economy. The Department will continue to assess the economic case for additional Higher Education places as this information comes forward, including whether the needs of the Northern Ireland economy would be better served by more part-time or full-time places.

Responding to this Document

46. This document sets out evidence currently available in relation to the number of full-time undergraduate Higher Education places in Northern Ireland. It sets out the Department's position in response to that evidence and what further work it plans to engage in to ensure that its position is keep under informed review.

47. The Department for Employment and Learning welcomes comments in relation to this document. Comments should be made by mail, fax or email to: Ian Hamilton, Department for Employment and Learning, Room 407, Adelaide House, 39-49 Adelaide Street, Belfast BT2 8FD; fax: 028 9025 7701; Tel: 028 9025 7721.

References

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Department of Enterprise Trade and Investment

From: Graeme Hutchinson
Economics Division

Date: 4 August 2006

To: Alan Patterson

Economic Challenges Assembly Working Group

1. Following our evidence on 1 August 2006, please find attached the data that we agreed to forward.

2. One outstanding issue is the work that the Department is doing on modelling the impact of increasing jobs created through inward investment. This material will be with the Sub-Group early next week.

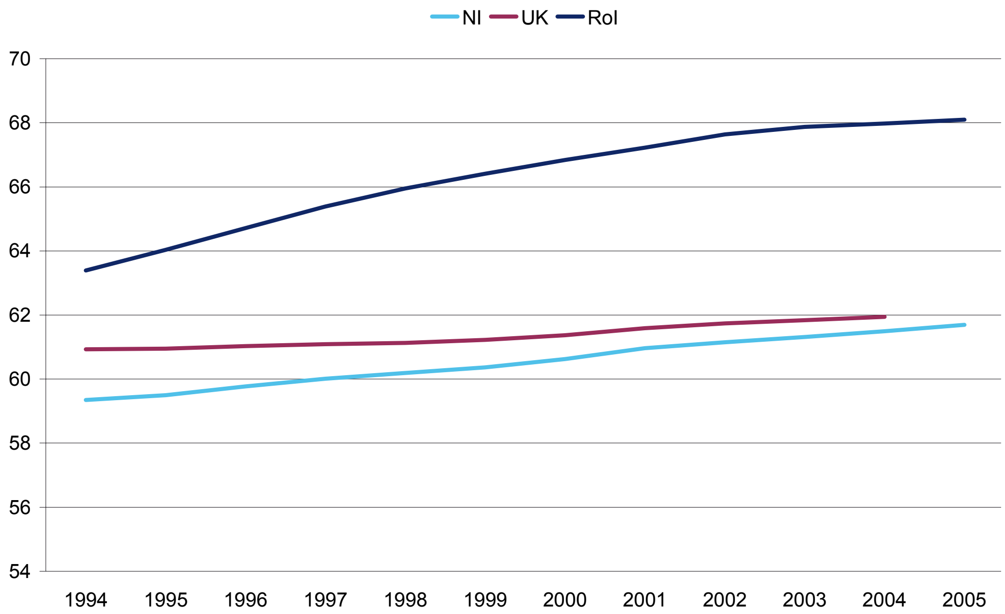
GRAEME HUTCHINSON

1

Issue: Working Age Population

- NI's working age population as a proportion of total population (61.7%) is below that of the RoI (68.1%) for 2005. The most recent UK figure (2004) is 61.9%.
- RoI's working age population increased by 21.5% over the decade, significantly above the 8.4% increase in NI over the same period, reflecting the large inflows of skilled labour to RoI over recent years.
- NI's working age population is forecast to grow by 2.9% over the next decade compared to 2.3% in the UK – less than half the rate forecast for RoI (8.0%). If migration is excluded from these forecasts both NI and RoI economies would have similar working age population growth – NI at 5.1% and RoI at 5.3%.

Figure 1
Percentage of working age population NI vs. RoI (1995 – 2005)



Source: NISRA mid year estimates working age 16-59/64: Eurostat (RoI) Jan of each year; WA population 15-64

Table 1
Percentage of working age population NI vs. RoI (1995 – 2005)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
NI	59.5%	59.8%	60.0%	60.2%	60.4%	60.6%	61.0%	61.1%	61.3%	61.5%	61.7%
RoI	64.0%	64.7%	65.4%	65.9%	66.4%	66.8%	67.2%	67.6%	67.9%	68.0%	68.1%
UK	60.9%	61.0%	61.1%	61.1%	61.2%	61.4%	61.6%	61.7%	61.8%	61.9%	-

Note: UK data is only available until 2004

Source: NISRA & Eurostat

Issue: Economic Inactivity

- As illustrated in Table 2, NI's economic inactivity is considerably above the rate experienced in the UK. The rates of economic inactivity experienced in RoI and NI are broadly similar.
- As illustrated in Tables 2 and 3, the main reason for economic inactivity in NI is sickness and disability, with 99,000 individuals (33.6% the economically inactive) reporting themselves in this category in 2006.

Table 2
Economic Inactivity

	NI	UK	RoI*
Working Age Economic Inactivity rate	28.0%	21.5%	29.0%
Reason			
Student	29.0%	25.4%	34.9%
Family/home	27.9%	28.7%	40.0%
Sick/disabled	33.6%	28.5%	11.8%
Retired	5.4%	7.4%	6.0%
Other	4.0%	10.0%	7.4%

Source: ONS, CSO & DETI Statistics Branch
**RoI figures for 2004, working age population 15-64. Inactivity rate Dec – Feb 2005*

Table 3
UK and NI Economic Inactivity 1996 - 2006

	NI		UK	
	1996	2006	1996	2006
Working Age Economic Inactivity rate	28.6%	28.0%	22.0%	21.5%
Reason				
Student	24.6%	29.0%	20.3%	25.4%
Family/home	32.4%	27.9%	34.7%	28.7%
Sick/disabled	33.0%	33.6%	29.2%	28.5%
Retired	3.0%	5.4%	5.8%	7.4%
Other	7.0%	4.0%	10.0%	10.0%

Source: DETI Statistics Branch

Issue: Inward Investment in Fermanagh and Tyrone

- There were a total of 30 inward investment projects in Fermanagh and Tyrone over past five years making a total of £116.6m planned investment.
- Tyrone and Fermanagh attracted 18.9% of projects and 10.4% of total inward investment to NI between 2001/02 and 2005/06. The combined population of Tyrone (171,800) and Fermanagh (59,300) accounts for 13.5% of the Northern Ireland population.

Table 4
Inward investment in Fermanagh and Tyrone (2001/02 to 2005/06)

	Fermanagh[1]		Tyrone[2]		NI	
	Number of Projects	Total planned investment (£m)	Number of Projects	Total planned investment (£m)	Number of Projects	Total planned investment (£)
2001/02	1	0.6	2	39.5	22	231.4
2002/03	1	7.9	3	10.7	19	166.7
2003/04	2	3.9	3	4.4	36	149.4
2004/05	1	0.02	10	31.3	51	209.7
2005/063	1	3.8	6	14.5	31	361.9
	6	16.1	24	100.5	159	1,119.1

Source: Invest NI; figures relate to Invest NI clients only. There may has also been non-invest NI externally owned clients investing in NI over the time period. Figures include both first time inward investment and reinvestments by existing clients.

[1] *Fermanagh incorporates Fermanagh DCA*

[2] *Tyrone incorporates Cookstown, Dungannon, Omagh and Strabane DCAs*

[3] *Figure for 2005/06 are provisional and may be subject to change*

Figures may not sum due to rounding.

Issue: SMEs in Northern Ireland

- Companies in the UK with profit levels below £300,000 per annum pay a reduced corporation tax rate of 19%. A marginal relief is applied on profits between £300,000 and £1.5m. Profits over £1.5m are taxed at 30%.
- NI is a small business economy, with micro businesses (those businesses with less than 10 employees) accounting for 88.5% of the NI total, compared to 82.0% in GB. Just over half (51.0%) of NI businesses have an annual turnover less than £100k compared to 43.7% of UK firms.

From: Graeme Hutchinson
Economics Division

Date: 8 August 2006

To: Alan Patterson

Economic Challenges Assembly Working Group

1. Following on from the material provided on 4 August 2006, please find attached the remaining information.

2. This includes the following:

   (a) An outline of DETI's current FDI research project.

   (b) A summary of the research findings from the project assessing the case for enhanced R&D tax credits in Northern Ireland.

   (c) An assessment of the economic impact of changes in the levels of inward investment.

3. Regarding 2 (c) it is important to stress that the analysis represents work in progress. Should the working group find the material useful for their final report it would perhaps be advisable if you touched base with me beforehand.

4. I hope the working group finds this information useful and if I can be of further assistance please let me know.

GRAEME HUTCHINSON

1

Issue: FDI Research Project

In recognition of the increasing importance of tradable services FDI to economic development, the Department of Enterprise, Trade and Investment (DETI) has appointed the consultancy firm Experian to carry out a research study into current and future FDI trends in NI tradable services.

The study, which will conclude in October 2006, will be clearly focused on the tradable services sector and will use a combination of desk based research, stakeholder consultations and a survey of current FDI investors and their local suppliers in order to examine:

- The wider spill-over benefits that FDI can bring to the NI economy (such as increased skills, supply chain linkages, tax receipts and technical innovation)
- The key trends in FDI over the coming years
- The industry sub-sectors and geographic sub-regions where NI is likely to have a competitive advantage in attracting FDI
- The locational/regional factor which will be critical in attracting high value added FDI to NI in the coming years.
- Three case studies of successful FDI interventions in other countries, to investigate what lessons can be learnt by NI. It has been agreed that one of these case studies will involve an examination of the factors behind the success of the International Financial Services Centre (IFSC) in Dublin
- The policy implications of the evidence gathered, identifying those sectors that policy should target to accrue the greatest economic benefit to the indigenous NI economy given:
  i) Existing competitive advantage
  ii) Sub sectors which are likely to add greatest value to the NI economy in terms of both wider benefits as well as increased output and employment.

The final part of the research will be to develop an action plan outlining policy recommendations to improve NI's competitive advantage in the market place and actions to ensure that potential spillover benefits resulting from FDI within the subsectors identified are maximized once the project locates in NI.

The consultants will provide regular updates to the project Steering Group, which is being chaired by DETI and includes representation from Invest NI and the Department of Employment and Learning.

Research Timetable

Following a competitive tendering exercise, Experian were appointed to take forward the research in June 2006.

Activity to date has involved a literature review, data sourcing and analysis.

A workshop will be held in August to canvass the views of DETI policy practitioners, Invest NI sectoral teams, investment partners, cross-border economic organisations and other interested parties.

A survey of FDI firms and tier one suppliers (firms at the top of the supply chain which have direct interface with the FDI firm) will also be undertaken in August. Examples of issues the survey will explore are factors impacting on locational decisions, NI's comparative advantages, supply chain linkages and knowledge or technological transfer.

In September the consultants will undertake detailed research into three case studies which will be agreed in advance with the steering group.

The draft final report will be presented to the steering group in early October.

Issue: Research examining the case for enhanced R&D tax credit for Northern Ireland

The report "Assessing the Case for a Higher R&D Tax Credit in Northern Ireland", submitted on 14 February 2006, was written by Richard Harris and Q. Cher Li at the Centre for Public Policy for Regions and Mary Trainor at Queen's University Belfast. The report is now with HM Treasury and DFP / DETI officials will be discussing the implications with HMT once they have considered the findings.

The research was based on desk-research using data from the NI Business Expenditure on R&D (BERD) survey, the Annual Respondents Database (ARD) and the Third Community Innovation Survey (CIS3). The methodology includes a statistical comparison of the level and type of R&D undertaken in NI compared to GB and the ROI (where data permits), a review of existing literature on R&D activity, econometric modelling and a survey of NI business.

The research models the determinants of R&D expenditure in NI vis-à-vis other UK regions. The characteristics of firms which undertake R&D and the factors which determine the intensity of R&D activity (ie in terms of expenditure on R&D) are analysed. To enable an assessment of the impact of an enhanced tax credit on the demand for R&D, the research estimates the sensitivity of demand for R&D in NI to changes in the user cost/price of R&D (through an increase in the R&D tax credit). The potential impact of R&D on productivity levels in NI plants is estimated.

The survey element, comprising a telephone survey of 251 complete interviews with local firms which undertake R&D and "matched" non-R&D firms (ie firms displaying similar characteristics to those undertaking R&D and arguably therefore should also be undertaking R&D), provides additional analysis of the factors determining which firms in NI undertake R&D and which do not.

Comparisons with UK and ROI

The research found that, NI business expenditure on R&D as a percentage of Gross Value Added is significantly lower than UK levels. When compared to the Republic of Ireland (ROI), R&D spending as a percentage of Gross Domestic Product is also much lower in NI. Northern Ireland has a significantly different pattern of R&D spending across industrial sectors in comparison to the UK and ROI.

In NI fewer establishments undertake R&D compared to the UK whether in manufacturing or services sectors of the economy. For those establishments which spend on R&D, expenditure per employee is also much lower in NI than in the UK as a whole.

Determinants of R&D Expenditure

The research identifies a number of key determinants of R&D spending including size of company, the capability to absorb external knowledge ("absorptive capacity"), industrial structure, engagement in export activity and receipt of public sector assistance. Lower capability (absorptive capacity), smaller companies in NI, having fewer firms engaged in export activity and a weaker industrial structure contribute to the lower number of firms in NI undertaking R&D activity compared to the UK. However, availability of public sector support has made a significant contribution to raising the number of establishments undertaking R&D in NI.

R&D Intensity (Spend per unit of sales)

The research finds that the key factors which contribute to R&D intensity are whether the establishment undertakes intra-mural spending on R&D (does R&D within the establishment), buys in R&D or co-operates with others in undertaking R&D, capability issues (called absorptive capacity), the degree of industrial specialisation, industrial structure, receipt of public sector assistance, continuity of expenditure on R&D, multi-plant enterprises and firm size.

The lower level of R&D intensity (ie for those firms that do R&D) in NI relative to the UK is explained by a larger proportion of establishments engaged in only buying in R&D activities (as opposed to intra-mural - in house - R&D), lower capability/absorptive capacity in NI firms, poor industrial structure (ie dependence on Food, Drink and Paper industries which display low levels of R&D spend) and fewer NI establishments involved in continuous R&D activities. However, the factors which were found to have increased R&D intensity in NI include the availability of public sector assistance and a less diversified industrial base (ie less able to rely on other firms).

Impact of Tax Credit on Demand for R&D and Output

The research models the impact of doubling the R&D tax credit from current rates in NI for both SME's and larger firms (large firm credit goes from 125% to 150% and SME rate from 150% to 200%). The research estimates that an enhanced R&D tax credit, which in effect reduces the price/cost to the firm of undertaking R&D, would increase the R&D stock in NI in the long run (ie over 6.5 years). This would in the long run, increase the demand for R&D and raise productivity (output in manufacturing is estimated to rise by between 1.4% and 3.8%).

Exchequer Cost of Enhanced Tax Credit

Provisional estimates of cost to the Exchequer suggests that the cost of the enhanced tax credit would only be partially off-set by the increased corporation tax bill from the increased output and therefore there would be a net exchequer cost associated with enhancing the credit in NI (a doubling of the tax credit results in a net exchequer cost of £10 million). The net exchequer cost also rises as the enhancement of the credit increases. The report concludes therefore that an NI enhanced tax credit would be relatively expensive but this ignores the benefits to the wider NI economy of new R&D starts, increased output, greater innovation, rising capability/absorptive capacity and exporting/internationalisation.

Survey Findings

The survey of 251 NI manufacturing firms (a response rate of 56%) largely supports the statistical analysis/econometric modelling. Firms undertaking R&D were more likely to engage in export activity, concentrate on value-added aspects of production and have greater capability/absorptive capacity than firms which do not undertake R&D.

For non-R&D companies the key reason offered for not undertaking this expenditure, for large firms, was found to be a corporate level decision not to invest in R&D. Risk also deterred large firms from undertaking R&D. For small firms this was due to production/products based on cost-minimisation (and not on quality) which non R&D SMEs stated would not justify the cost of undertaking R&D (however, it was found that SMEs that do R&D are also found in price sensitive sectors). This suggests that there may be problems with culture (or aversion) to undertaking R&D in NI amongst firms that should be undertaking R&D.

Uptake of the tax credit was very low in NI. Only 24% of firms undertaking R&D had taken up existing R&D tax credits. R&D performers (ie those that do R&D) stated they would raise R&D with more financial incentives but R&D companies preferred grants to tax credits.

Issue: Inward Investment Scenario modelling - 3,000 new inward investment jobs created per annum to 2015

This level of inward investment is above the base forecast where FDI remains on its historical trend.

The scenarios model the macroeconomic effect of increased levels of inward investment, but do not offer advice on the policy initiatives that might be able to induce this type of change.

Based on historical data, 80% of new jobs are in the service sector and the remaining 20% are in the manufacturing industries with productivity of twice the NI average.

Variant 1 uses service sector productivity of 15% above the NI sectoral average and variant 2 uses service sector productivity of 75% above the NI sectoral average.

The rationale for using this range of productivity figures for the service sector is that whilst data is available for some InvestNI external client companies, the sample is small (on average 28 non-manufacturing firms per annum).

Results

Goals	2005	2015 (Base forecast)	2015 (FDI scenario, SV=+15%)	2015 (FDI scenario, SV=+75%)
GVA per person (UK = 100)	80.6	80.5	83.8	84.9
GVA per employee (UK = 100)	89.1	88.9	90.0	91.1

Source: Regional Forecasts

Both variants of the FDI scenario estimate that overall productivity will receive a significant boost from increased levels of FDI.

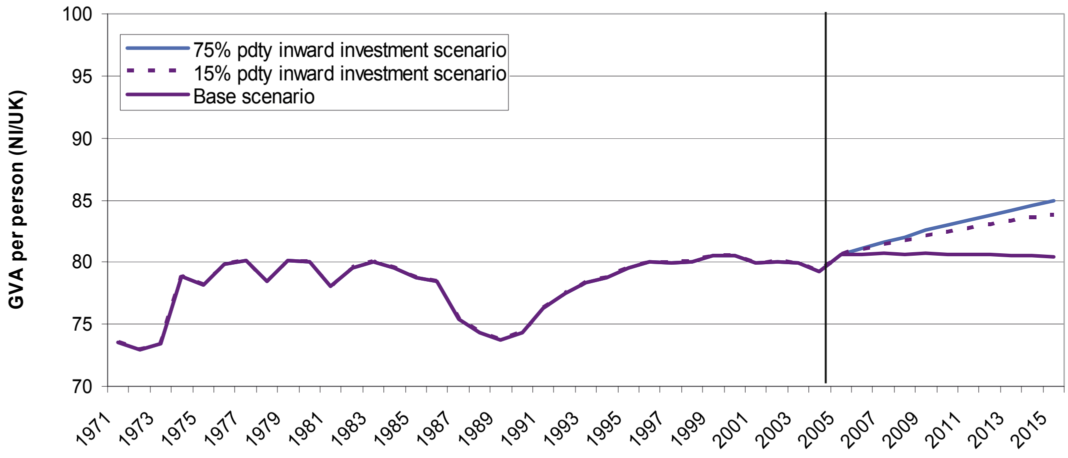
Annex 1 includes a visual representation of the impact of increasing FDI against historical data and base level forecasts.

DETI has also employed Regional Forecasts to examine the impact of a number of other scenarios. They are:

- Employees in tradable services to increase to 5% of total employment by 2015 (**from 2.8%**);
- VAT registrations (per 10,000 businesses) to increase to the UK level by 2015 (**Manufacturing registrations are 91% of the UK level**);
- Business Expenditure on R&D (as % of GVA) to increase to 70% of the UK level by 2015 (**currently at 38%**);
- Percentage of the working age population qualified to at least level 4 to increase to 30% of the working age population by 2015 (**from 22.6% in 2005**).

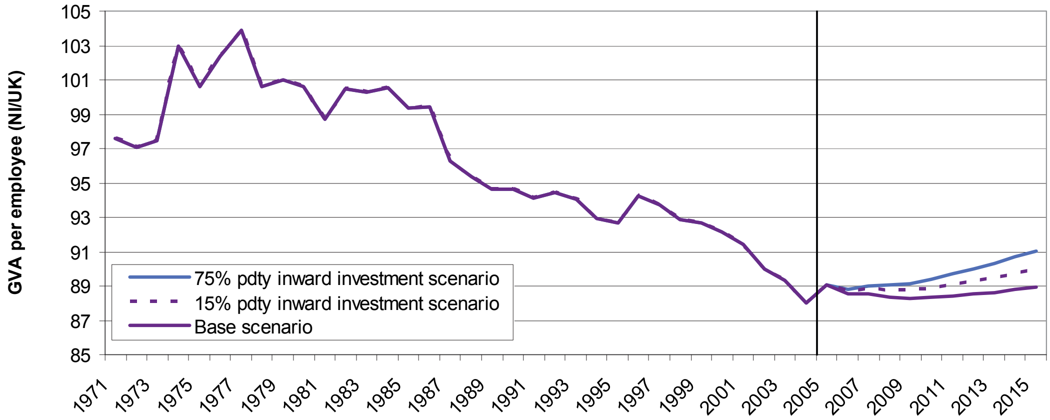
Annex 1 – Historical data, base and scenario forecasts

Goal 1: GVA per person in Northern Ireland relative to the UK (UK=100)



Source: Regional Forecasts

Goal 2: GVA per employee in Northern Ireland relative to the UK (UK=100)



Source: Regional Forecasts

From: Graeme Hutchinson
Economics Division

Date: 15 August 2006

To: Alan Patterson

Economic Challenges Assembly Working Group

1. Following on from the DETI presentation and in particular the commentary on economic inactivity and subsequent material provided on 4 August 2006. Please find attached more detail in relation to economic inactivity.

2. Table 1 (attached) details the number of recipients of Incapacity Benefit, by rate of benefit and by Government Office Region.

3. Table 1 highlights that NI's Incapacity Benefit (IB) recipients as a percentage of working age population (6.6%) is higher than the GB rate of 4.1%. However, the NI rate is on a par with the North East and compares favourably with Wales (7.6%).

4. In terms of further decomposition of incapacity benefits, Table 1 highlights the important difference between long & short term benefits. Of the 69,600 recipients of IB in NI, 90% are on the Long Term rate (IBLT). This compares to 87% in GB. IBLT applies to people who have been sick for more than one year.

5. Unfortunately we are unable to provide any further breakdown of the RoI figures to make further NI v RoI comparisons. However, just a minor point on the comparability of NI (&UK) v RoI sickness / disability figures. While both estimates are obtained from household surveys and should be broadly similar, there are differences in the question wording for the respective countries. In NI & UK, survey respondents are asked if they have a long-term sickness or disability, whereas in RoI the definition refers to 'permanent sickness or disability'. This will undoubtedly have an impact on comparisons, as analysis shows that a proportion of the long-term sick or disabled in NI expect to work again and are therefore by definition 'not permanent'.

6. I hope the working group finds this information useful and if I can be of further assistance please let me know.

Graeme Hutchinson

Table 1

Number of recipients of Incapacity Benefits at 30 November 2005, by rate of benefit and Government Office Region

Thousands

	All IB	IBST(L)	IBST(H)	IBLT	All IB as % of working age population
All Cases (GB)	**1493.6**	**93.2**	**94.3**	**1,306.2**	**4.1**
North East	**103.8**	5.5	5.7	92.6	*6.6*
North West	**236.1**	13.5	13.4	209.3	*5.6*
Yorks & Humber	**139.7**	8.4	8.6	122.6	*4.5*
East Midlands	**106.4**	6.4	6.9	93.0 -	
West Midlands	**140.8**	9.2	9.1	122.6	*4.3*
South West	**103.9**	7.3	7.4	89.1	*3.4*
Eastern	**97.0**	7.1	7.0	82.9	*2.9*
London	**120.7**	8.7	8.2	103.7	*2.4*
South East	**123.6**	9.0	9.4	105.2	*2.5*
England	**1171.9**	75.2	75.7	1,021.0	*3.8*
Scotland	**179.9**	10.8	11.2	158.0	*5.7*
Wales	**131.0**	7.1	7.2	116.8	*7.4*
Northern Ireland	**69.6**	3.1	3.6	62.8	6.6
Overseas	**10.8**	*0.1	*0.3	10.4	

Mid 2004 estimates. Population of working age. Namely 16-59 for Females, 16-64 for Males.

*Figures under 500 are subject to a high degree of sampling error and should only be used as a guide to the current situation as GB data are taken from a 5% extract of the computer system.

Source: DSDNI Incapacity Benefit and Severe Disability Allowance Summary Statistics, Table B9a

http://www.dsdni.gov.uk/incap_nov05.xls

Definitions

IBST (L) is a lower rate paid for the first 28 weeks of sickness.

IBST (H) is a higher rate for weeks 29-52 of sickness.

IBLT applies to people who have been sick for one year or more.

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Department of
Finance and
Personnel
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From:Michael Brennan

Copy Distribution List Below:

Date: 11 August 2006

To: Alan Patterson
NI Assembly

NI Tax Concessions

I understand that you have been in discussion with Graeme Hutchinson on the subject of current tax concessions (relative to the UK) granted to Northern Ireland.

I have attached at Annex A a short summary of two tax concessions that currently apply and their rationale. You should also be aware that the 1998 Chancellor's Initiative package did grant a temporary tax concession on capital allowances but this has now expired.

If you would like any further information please do not hesitate to contact me.

Michael Brennan
Ext. 68151

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Annex A

Climate Change Levy

Measure / Derogation: The Climate Change Levy (CCL) came into effect on 1st April 2001 and applies to energy used in the non-domestic sector (industry, commerce, and the public sector). The aim of the CCL is to encourage these sectors to improve energy efficiency and reduce emissions of greenhouse gases as envisaged under the Kyoto Protocol. However, the CCL does not increase the tax burden on industry as a whole, nor generate a net gain in public finances, as the CCL was offset by an associated reduction in employers' National Insurance Contributions. The CCL does not apply to domestic energy use and mineral oils are not within its scope as these are subject to excise duty.

In 2001 Northern Ireland secured HMT agreement, and State Aids clearance, for a five-year exemption from the CCL for gas consumers in Northern Ireland. A further five year extension to the CCL exemption from April 2006 was subsequently secured.

Rationale for NI Derogation: The case was successfully made on the need to promote and expand the infant gas industry in Northern Ireland. This was to encourage consumers to switch from high carbon fuel to gas and, as a result, contribute to the desired reduction in greenhouse gases. The exemption was therefore considered in line with the general objectives of the CCL.

Northern Ireland has a unique energy market environment. The peripheral, isolated geographical position of Northern Ireland means consumers must pay higher transportation charges than the rest of the UK and other EU Member States. In the absence of natural gas, higher carbon dioxide emissions are associated with the need to transport oil and coal by road. There are no indigenous commercially exploitable sources of fuel and a restricted degree of interconnection between the Northern Ireland natural gas network and that in Great Britain and the Republic of Ireland. The small market means that economies of scale are difficult to find and a high generation security margin is required resulting in proportionally higher energy costs than the rest of the UK, shown in the table below. The cost burden is of particular importance to Northern Ireland given that we have the highest incidence of fuel poverty in the UK with roughly one in three households in fuel poverty, a situation that has been exacerbated by recent increases in energy prices.

The five year extension will permit NI to build on the environmental benefits that have been realised through the expansion of the gas industry in Northern Ireland over the past five years (to which there is a significant North/South dimension).

Aggregates Tax Levy

Measure / Derogation: An Aggregates Levy on the commercial exploitation of aggregates production in the United Kingdom was introduced in April 2002 to address the environmental costs associated with quarrying not already covered by regulation. It was aimed at encouraging the use of alternative sources such as recycled materials and certain waste products.

Northern Ireland was afforded relief from the Levy for use in certain specified products. Initially this relief was to be phased out over five years and this prompted calls from the industry for the scope and duration of the relief to be extended. In response to this the relief for Northern Ireland was maintained at 80% (rather than being phased out) with the relief period extended for a further 5 years to 2012. The relief was also extended beyond certain specified products to cover all aggregates originating in, and exploited in, Northern Ireland.

Members of the Aggregates Levy Credit Scheme (ALCS) can avail of the tax relief in return for an undertaking to carry out environmental improvements on an incremental basis. Failure to implement improvements would lead to the withdrawal of the operator's exemption certificate, thus requiring him/her to pay the full rate levy. Currently 163 sites are in the ALCS and further 15 sites are currently being investigated for membership. This represents virtually all the aggregates producers in Northern Ireland.

Rationale for NI Derogation: In formulating the Aggregate Levy Government has recognised the different circumstances in Northern Ireland. According to the Geological Survey of Northern Ireland (GSNI), the geology of Northern Ireland is complex. As a consequence the country possesses a rich variety of bedrocks and superficial deposits that are capable of producing a wide range of high quality, high specification aggregates and materials for the construction industries. These resources are distributed widely throughout Northern Ireland, which has led to a significant difference in the size and distribution of quarries thus minimising haulage differences.

The introduction of the Aggregates Levy created particular problems for the industry in NI because of the availability of aggregates from the Republic of Ireland where no levy is applied. Given the close proximity of a large number of southern processors to the border, it was estimated that it would be economical for them to transport processed materials up to 25 miles into Northern Ireland because of lower fuel prices. There were concerns that raw unprocessed material could economically be extracted in Northern Ireland, exported across the border and re-imported into the north as processed materials without attracting the tax.

Central Finance Group SPD

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FROM: Michael Brennan — Copy Distribution List Below:

Date: 18 August 2006

TO: Alan Patterson
NI Assembly

Chancellor's Initiative

Following our recent correspondence regarding current tax concessions (relative to the UK) granted to Northern Ireland, please find attached at Annex A a short summary of the 1998 Chancellor's Initiative package.

This strategy, worth £315m, was aimed at promoting enterprise and encouraging investment throughout Northern Ireland. It consisted of a set of funding strands with the aim of building on economic and political stability, getting people back to work and equipping them with the right skills, and building infrastructure for a modern economy.

Please note that the press notice announcing the strategy is available on the HM Treasury website:

http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/1998/press_76_98.cfm

If you would like any further information please do not hesitate to contact me.

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Annex A

Chancellor's Initiative

Background

On 12 May 1998, the Chancellor of the Exchequer Gordon Brown announced a major economic strategy for Northern Ireland. This strategy, worth £315m, consisted of the following:

- Investment Fund (£150m)
  - (including an Innovation and Tourism Fund (£21m))
- Employment and Skills Fund (£65m)
- Enterprise Fund (£100m)

Investment Fund

The aim of this fund was to help create a better transport network, and to improve housing and school provision. Initiatives included:

- £15m to upgrade the Belfast-Newry road;
- £87m for other key road programmes, including:
  - Belfast – Larne road
  - West Link
  - Toome bypass
  - Antrim – Ballymena road
  - Londonderry – Ballygawley road
- Improving the infrastructure of St. Angelo airport in Fermanagh;
- £11m allocated to address problems in NI's housing estates.

Innovation Fund

The aim of this strand was to ensure that ideas created in NI would be turned into successful businesses based in NI. Initiatives included:

- £10m to create a new science park;
- Challenge fund (£5m) available for innovative spin-off firms;
- £4m challenge fund set up to kick-start growth in the tourism industry;
- £2m overseas market programme to boost overseas sales.

Skills Fund

A need was identified to invest in people and to develop their skills. Initiatives included:

- Measures to expand the new deal for jobs and training;
- £75 per week employment subsidy to help those unemployed for more than 2 years to get back into work;
- 30,000 new opportunities for the long-term unemployed – everyone over 25 unemployed over 18 months given help to find work, through support tailored to individual needs;
- £9m pilot programme to help disabled people improve their employability through work experience, training and education;
- £18m committed to improve schools infrastructure (building new schools and improving existing school buildings);
- £14m for lifelong learning (including increasing IT availability);
- £14m targeted on the needs of business, including:
  - conversion courses for graduates and new apprenticeships;
  - technician-level training in the software and IT industries;
  - meeting the need of inward investors and other employers in engineering and in hospitality.

Enterprise Fund

This fund was to help business to boost investment and to enable small businesses to turn themselves into large and growing businesses. Initiatives included:

- Every pound invested in plant and machinery in the four years from the announcement to be fully offset against tax and therefore wholly tax deductible;
- £100m investment in the economy, which will benefit 99% of businesses, including the tourism and service industries;
- Establishment of an enterprise excellence programme to provide training, advice and access to finance.

Enterprise Northern Ireland

Northern Ireland Assembly
Sub-Group on Economic Challenges

Additional Material – Enterprise NI August 2006

1.0 **Enterprise NI**

Enterprise Northern Ireland is a leading economic development organisation focusing on entrepreneurship, business start and business development across all sectors. Enterprise Northern Ireland, as the umbrella organisation, acts as the lobby and policy voice of the agencies and on behalf of small business generally to develop initiatives that make Northern Ireland more enterprising and innovative.

2.0 **Enterprise NI View**

Enterprise Northern Ireland agrees that inward investment and support to technology based business is important. However we believe that achieving inward investment and technology based business targets are challenging and do not provide a total solution for the Northern Ireland economy especially for those based in peripheral areas and disadvantaged communities. Enterprise NI believes that we need to develop a mixed economy that values and applies resources to the establishment and development of entrepreneurs establishing locally focused including family businesses.

3.0 **Why is supporting entrepreneurship important?**

It is important because of the connection between entrepreneurship and new venture creation and economic growth as evidenced below:

- entrepreneurship is an important driver for economic growth, competitiveness and job creation (Thurik and Wennekers, 2004).
- In terms of wider economic growth and productivity agenda in the UK and EU - five productivity drivers - innovation, skills, investment, competition and enterprise - entrepreneurship cuts across all 5 of these areas... therefore, entrepreneurship leading to successful and sustainable local economies is a key component of that growth agenda. (Global Entrepreneurship Monitor 2004)
- higher rates of entrepreneurial activity are strongly associated with the faster growth of local economies as measured by employment growth (i.e., not economic growth) –

(Acs and Armington, 2004 using data on labour market areas (LMAs) in the United States for the period 1989-99).

- ‘entrepreneurial capital’ (i.e., a region’s endowment with factors conducive of new business – e.g., high number of individuals willing and capable of engaging in entrepreneurial activity), is a significant determinant of output and productivity in the regions of Germany. (Audretsch and Keilbach, 2004).
- regional entrepreneurship/new business formation linked to regional growth - labour productivity in the case of Sweden and employment change for the German regions (Fritsch and Mueller, 2004; Braunerhjelm and Borgman, 2004).
- entrepreneurial activity and agglomeration have a positive and statistically significant effect on technological change in the European Union (Acs and Varga, 2005).
- entrepreneurial activity by nascent entrepreneurs and owner/managers of young businesses affects economic growth in 36 countries, but that this effect depends upon the level of per capita income - entrepreneurship plays a different role in countries in different stages of economic development - the results demonstrate a U-shaped relationship between nascent entrepreneurship and the level of economic development. (Van Stel et al., 2005; Wennekers et al., 2005).
- Volume versus Quality?? – a futile debate!! (Botham & Simpson, 2004) for the SBS):
    - for a region to achieve greater numbers of growth companies it requires more new starts
    - the volume of new starts do not squeeze out high growth new starts
    - and, there is a positive and significant link between a high birth rate and employment growth in Great Britain - each new VAT start generates between 2.6 and 2.9 additional jobs (after displacement and multiplier effects)
    - and ….the number of high growth start-ups per capita increases marginally as the overall business birth rate increases.
- Small firms and employment growth - the job creation propensity of small firms in Northern Ireland have been demonstrated over the 20 year period 1973-93 (Roper, 2004).
    - Business churn - the sum of the numbers of businesses that are started and closed, can be used as a measure of the dynamism of the market for entrepreneurship:
    - There is a clear regional dimension to this ‘start-up’ market both in terms of new openings and closures
    - the ‘net’ effect is to produce a very marked regional pattern with London and the South East characterised by high levels of churn compared to more northern and peripheral regions.
    - In short, high ‘churn’ (openings and closures) associated with more prosperous regions (Botham & Simpson, 2004; GEM UK data 2004).
    -

4.0 Locally Focussed Businesses

In summary locally focussed business contribute to the Northern Ireland Economy as they:

- Provide employment, incomes and opportunities in towns and villages and in rural areas across Northern Ireland.
- Provide the only opportunities for employment and income growth where inward investment is not an option (Invest NI policy is to steer investment to Londonderry and Belfast).
- Stimulate competition and innovation.
- Provide enhanced services to local population, and
- Provide accessible employment.

5.0 NI Assembly Sub-group on Economic Challenges

At a session on 1 August 2006, Enterprise NI agreed to provide the following additional material:

- costed solutions on interventions that could be made at pr, post and start up level; and
- incentives to encourage family businesses to export.

6.0 Current Position Regarding Business Support

Enterprise NI highlighted a number of key issues to the NI Assembly which are summarised below:

- no one has statutory responsibility for supporting locally focussed businesses
- support to the sector is stop start in nature
- the Start A Business Programme which is currently the only programme which supports this sector ends in March 2008
- business support agencies are not resourced to provide general information and support to entrepreneurs – i.e support is programme rather than client focussed
- there is no Northern Ireland wide programme to develop enterprise awareness
- there is no Northern Ireland wide programme to support local businesses to develop, grow and export
- the national Go for It Campaign which does increase awareness of starting a business is also stop start in nature
- Inter departmental co-ordination is limited.

We therefore propose the following interventions.

7.0 Proposed Interventions

Enterprise NI proposes that there is a continuum of support developed similar to that which exists in Scotland and the Republic of Ireland. This provides ongoing statutory funding to enable business support agencies to provide support throughout the business life cycle from enterprise awareness and outreach through to business development & exporting.

Core programmes should include the following:

a. **Research & Development** – to understand the needs of locally focussed businesses, to measure performance of programmes and to bench mark Northern Ireland against the rest of Europe and beyond through initiatives such as the Global Entrepreneurship Monitor.

b. **Advertising & Promotion** through a National Awareness Campaign and Local Promotion – to increase awareness, encourage people from all back grounds to take the first step and change attitudes & perceptions.

c. **Business Information Service (LEAS)** – improving access to information, knowledge, skills & networks for all. The Business Information Service Network aims to provide an integrated support infrastructure to provide physical access and support for entrepreneurs throughout NI. The network will advise entrepreneurs at all stages in the lifecycle of their business and will be focused on businesses with a local, external and global market orientation. However, its target audience will primarily be within the locally focused business market.

d. **Exploring Enterprise** – changing attitudes, increasing capacity and skills. Most entrepreneurship training currently available is designed to help the entrepreneur who already has an idea and is ready to start a business. The Exploring Enterprise Programme is specifically designed to engage people before this point and therefore is seen as a pre start programme. It is designed to increase the number of people considering self-employment as an option; and ultimately increase the number of clients progressing to the Start a Business Programme.

e. **Start A Business Programme** – to raise the number and quality of business start-ups in NI with a particular emphasis on the locally focused sector. This should include a grant for those from under presented sectors, from TSN/Neighbourhood Renewal Areas etc)

f. **Social Entrepreneurship Programme** - It will offer a mix of capability development support at start and post start up and grant support start up for social enterprises.

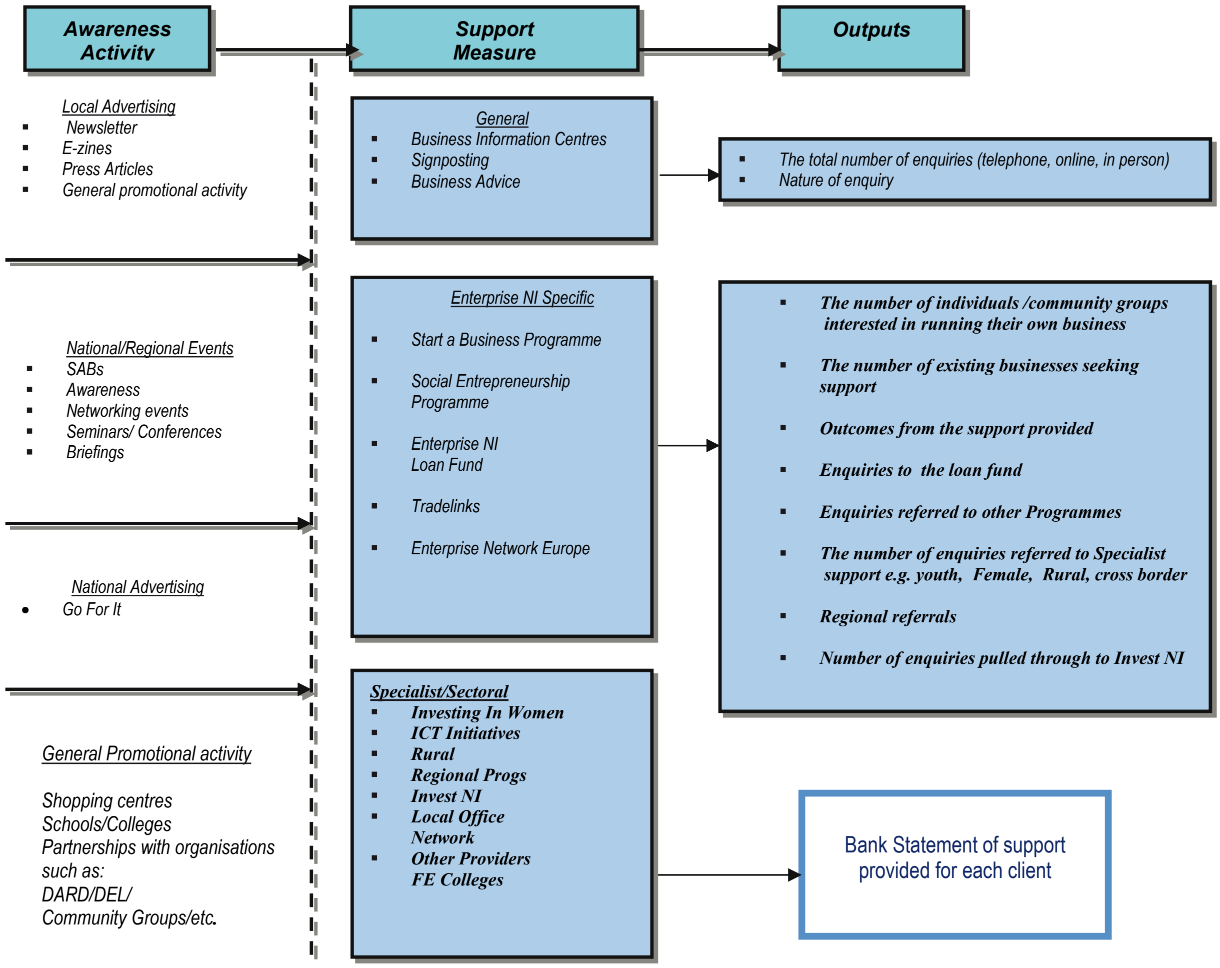
8.0 Costings

Enterprise Ni has prepared a table of draft costings. Please note that these are outline costs only and be further developed if required.

Enterprise NI Outline Costings for the NI Assembly Sub-Group on Economic Challenges – August 2006

Stage	Product	Annual Cost
Research & Development	Annual Surveys	£500k
	Evaluations	
	Pilot Initiatives	
	Benchmarking (GEM)	
Advertising & Promotion	**Go For It** National Campaign	£1m
	Local Outreach (mail outs, leaflet drops, posters, presentations to key influencers, schools, colleges & community groups)	£32k
Encouraging entrepreneurship and locally focused business start-ups **(Pre-start)**	**Business Advice Centres (LEAS)**	
	32,000 enquiries per annum @£15 per enquiry & tracking	£480k
	10,666 receive I hours business advisor support @£45	£480
	Exploring Enterprise	
	320 outreach sessions across all sectors with 2560 participants	£192k
	120 training courses with 1200 participants taking 6 modules	£600K
Establishing locally focused businesses **(Start-up)**	**Start A Business Programme (SABp)**	
	2750 start ups	£4m
	circa 4400 jobs	
	Social Entrepreneurship 30 new social enterprises per annum 40 existing businesses supported to develop	£750k
	144 jobs per year Grants to Social Enterprises 40 @£24k	£720k
Growing locally focused including family businesses **(Post start-up)**	**Enterprise NI /Aspire Business Loan Funds** 384 loans per annum	£500k
	Develop A Business Programme 1000 businesses assisted	£2 – 3 m
	Tradelinks 300 businesses supported	£1.2m
	Enterprise Network Europe 100 businesses supported	£500k
Property	Extentions or upgrades to LEAS & regeneration of town centre sites to allow business to development in an inclusive & supportive environment	£3m
Monitoring & Reporting	**Reporting to NI Assembly** On key outputs & performance	£250k

ENTERPRISE NI'S CONTINUUM OF SUPPORT



Federation of Small Business

Federation of Small Businesses Statement on Strategic Investment Board (SIB)

The Federation of Small Businesses welcomes the role played by the Strategic Investment Board (SIB), in delivering much needed infrastructure improvements in Northern Ireland.

Our principal concern relates to the lack of direct input into the direction of the Board by the small business community. The Northern Ireland economy is overwhelmingly populated by small businesses, and we firmly believe that it is through the stimulation of this sector that will be central to the future economic development blueprint for Northern Ireland.

The following text is our recommendation made in our *'Think Small to Think Big – an eight-point plan for institutions and structure of government in Northern Ireland'*,

Strategic Investment Board

The work of the Strategic Investment Board has a major impact on shaping the Northern Ireland economy. Charged with implementing the Northern Ireland Investment Strategy it has the potential to create innovative opportunities for existing businesses in the supply chain.

Ensuring that the existing businesses within the supply chain, particularly within the construction sector, are protected and given the opportunity to grow, is vital. The FSB strongly suggest that representatives from Small Businesses should be appointed to its Governing Board to ensure that they have the maximum experience and expertise available to fulfil their role.

Secondly we have a concern that communication between the SIB and the wider small business community has fallen short of what is required, to date. We would urge a review of the overall communication strategy with a view to reengaging with local businesses through agreed channels. It is debatable as to how such engagement can best take place but we are confident an agreed approach can be found.

The consultations to improve user-friendliness for small businesses between the SIB and the Central Procurement Directorate are particularly welcome. We urge that the positive outcomes from this process be actively promoted to the small business community.

We have studied the presentation made by SIB representatives to the Subgroup on the Economic Challenges facing Northern Ireland, on Thursday 27th July 2006, and welcome the commitment made by Mr. David Gavaghan to make contact with the FSB, with a view to more active engagement.

It is important that all stakeholders work within a unified purpose to build the foundations which will make Northern Ireland fit for purpose in the 21st Century.

Wilfred Mitchell OBE
FSB Northern Ireland Policy Chairman

Industrial Task Force

FROM SIR GEORGE QUIGLEY (CHAIRMAN, INDUSTRIAL TASK FORCE)
SUPPLEMENTARY WRITTEN EVIDENCE

7 August 2006

The EU position

1. In the course of evidence on 3 August 2006, in answer to a question by Mr Peter Weir about regional tax variations within EU countries, I indicated that I was aware of such variations in Spain and Portugal. I attach information on special tax arrangements applying in the Canaries and Madeira which exemplify the point.

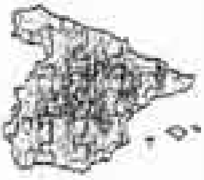
2. It is obviously the principle of variation (rather than the detailed arrangements which individual regions have tailored to suit their own circumstances) that is important. As indicated in the original presentation, the Industrial Task Force believes that the particular arrangements for company taxation in Northern Ireland have to reflect the fact that a situation at variance with what exists in the rest of the island is going to perpetuate the region's inability to compete.

Income Levels and Standard of Living

3. It may not have emerged sufficiently clearly from the exchanges on 3 August that, whilst the responsibility for expanding the market economy inevitably falls to business, the benefits of the consequent restructuring of the economy extend well beyond the boundaries of business.

4. The private sector median pay level in Northern Ireland is almost 20% below the corresponding figure for the UK as a whole. Income levels and standard of living can be sustainably raised only by closing the productivity gap with the rest of the U.K. whereas, as our presentation indicated, far from closing, it has widened. Hence the reference we made to the need for a far larger, export-driven private sector, with higher value added, higher productivity, higher earning power, and to the contribution which the much larger flow of FDI stimulated by a comprehensive corporation tax rate should make to the enlargement of opportunity for all.

General Information about the Canaries
- The Special Taxation Regime (REF)
- The Special Economic Zone (ZEC)
- Taxation of ZEC Companies
- Registration of ZEC Companies



SPAIN
KNOWLEDGE BASE

The Canary Islands Special Zone

General Information About the Canaries

The Canaries form an archipelago made up by seven main islands, located in the Atlantic Ocean near the Tropic of Cancer, near the African coast of Western Sahara. The islands stretch in an East-West 500 Kms arch. The latitude of the Canaries is in the subtropical zone, being the same as that of Orlando, Florida. The climate of the Canaries, however, is tempered by the surrounding ocean.

The Canary Islands are an integral part of Spain, this has been so for more than 500 years, and a huge majority of Canarians have confirmed their status repeatedly over time. The language of the Canaries is Spanish (Castilian), but the accent is more like the Spanish spoken in the Caribbean.

Co-ordination Centres
- Pre-conditions for Qualification as a Co-ordination Centre
- Fiscal Advantages of Co-ordination Centres
- Comparison with Belgian Co-ordination Centres

Spanish Holding Companies (ETVE)
- Withholding Taxes on Incoming Dividends
- Corporate Income Tax on Dividend Income Received
- Capital Gains Tax on the Sale of Shares
- Withholding Taxes on Outgoing Dividends
- Comparison with Dutch Holding Companies

Venture Capital Funds
- Qualifying Preconditions
- Fiscal Incentives

The Canaries form an "Autonomous Community" within the Kingdom of Spain. The islands have their own Government, Parliament and Administration, established by the Statute of Autonomy of the Canary Islands. The Canarian fiscal and economic system is different from the general Spanish one, which is in force in the major part of the Mainland.

As a part of Spain, the Canaries are also part of the European Union. However, the islands enjoy some exceptions in the fiscal and economic area.

The currency in the Canary Islands is the euro, as in Spain.

The Parliament of the Canaries is in Santa Cruz de Tenerife; the delegation of the Spanish Government in the Canaries is in Las Palmas de

Gran Canaria, with a sub-delegation in Santa Cruz de Tenerife; the Supreme Court of Justice of the Canarie is in Las Palmas de Gran Canaria.

The Supreme Court of Justice exercises the judicial power. Appeals against its resolutions are to the Supreme Court and the Constitutional Court of Spain.

The Special Tax Regime (REF)

Although mainland tax regulations apply in the Canaries, companies operating there are also eligible for special tax incentives (the Special Tax Regime or REF). Key features of the REF are as follows:

- VAT is not applied in the Canary Islands; instead there is a specific Sales Tax (IGIC) which has a general rate of 4.5%, an increased tax rate of 12%, a reduced tax rate of 2% and a zero tax rate for certain basic need products and services (eg telecommunications).
- Exemptions from duty on capital increases.
- The use of undistributed profits to reduce the taxable base provided that the amounts concerned are invested within three years in certain qualifying fixed assets or public stock.
- Enhanced tax credits for various types of investment.

BACK TO TOP

The Special Economic Zone (ZEC)

The Canary Islands Special Zone has been created within the fiscal and economic regime of the Canary Islands for the purpose of encouraging the economic and social development of the islands and the diversification of their manufacturing and service sectors.

The ZEC was created initially until 31st December 2008 and may be extended beyond that date with the authorisation of the European Commission. Companies may register up to 31st December 2006.

In early 2006, the Department of Economic Affairs and Finance of the Canary Islands Government suggested the introduction of improvements to the Canary Islands Economic and Fiscal Regime, including the extension of the time frame of the low tax zone beyond 2008 of 25 years for companies in the service sector and 50 years for companies operating in the industrial sector.

In addition, a suggestion has been made for solving the problems related to double taxation on profits. This modification aims to make the ZEC a real stimulus for attracting companies with newly-created economic activity. At present, companies with their head office in mainland Spain are subject to double taxation on profits, which makes it difficult for them to set up in the low tax zone.

It remains to be seen whether the Spanish government and the European Commission will agree to the new proposals.

Any company intending to carry out manufacturing, commercial or service activities within the territory of the Canary Islands may register in the ZEC.

financial services are excluded.

Permitted manufacturing, processing, handling and goods distribution activities include:

- Farming;
- Food, beverages and tobacco;
- Clothing;
- Leather goods and footwear;
- Furniture and related products;
- Paper, publishing, graphic arts and reproduction of recorded material;
- Building materials;
- Machinery and mechanical equipment;
- Electrical, electronic and optical materials and equipment;
- Chemicals;
- Recycling;
- Wholesale and distributive activities;
- Packaging, bottling and canning.

Permitted service activities include:

- Transport and related activities;
- IT;
- Natural resources and waste disposal;
- Telecommunications;
- Advertising;
- R + D;
- Education and Training;
- Consultancy;
- Legal and fiscal services;
- Other services.

Service companies registered under the ZEC may be set up in any part of the Canary Islands.

Production, processing, handing and distributive activities must be located in certain Designated Areas at:

- On the island of Grand Canary
    - The Port of La Luz and Las Palmas
    - Gando Airport
    - The Arinaga Industrial Estate
- On the island of Tenerife:
    - The Port of Santa Cruz de Tenerife
    - Los Rodeos and Reina Sofia Airports
    - The Granadilla Industrial Estate

There are Designated Areas on each of the other Canary Islands.

Any Company wishing to set up in the ZEC must satisfy a number of requirements, of which the most important are:

- A ZEC Company must be newly incorporated;

- At least one of the persons authorised to manage and act on behalf of the Company must be resident in the Canary Islands;
- A ZEC Company must make an investment of at least 100,000 Euros in fixed assets related to the activity within the first two years subsequent to authorisation;
- A ZEC Company must employ at least five persons in the ZEC area within the first six months subsequent to authorization and must retain this number of employees, on average, throughout its lifetime;
- A ZEC Company must present a description of its activities, with particular mention of its economic viability, international focus, contribution to the economic and social development of the Canary Islands and solvency.

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Taxation of ZEC Companies

ZEC companies enjoy the following tax benefits:

- Corporation tax (levied in Spain at 35%) is charged at between 1% and 5% on profits derived from ZEC activities. The rates depends on:
  - Net creation of employment;
  - The period of inclusion in the Register of ZEC Companies;
  - Whether the activity is new or pre-existing;
  - The type of activity.

- ZEC companies are exempt from Capital Transfer Tax and Stamp Duty in the following circumstances:
  - Purchase of goods and rights for the conduct of the business activity of the ZEC company within the geographical area of the ZEC;
  - Company operations except liquidation;
  - Stamp duty on documents connected with the company's operations in the geographical area of the ZEC

- ZEC companies are exempt from Canarian Indirect General Tax (Canarian Sales Tax) on delivery of goods and provision of services from one ZEC Company to another, and on imports.
- International Double Taxation Treaties and the EU Parent-Subsidiary Directive: the Canary Islands are an integral part of the territory of Spain and the European Union. Therefore ZEC companies may take advantage of Double Taxation treaties signed by Spain and the EU's Parent-Subsidiary Directive. ZEC Companies are not obliged to deduct tax from payments for tangible assets made by them.

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Registration of a ZEC Company

Application, authorisation and registration are the three steps required of companies wishing to set up within the ZEC.

The application must be presented together with the description of the intended activities.

The Consortium Board will then decide on the application and will inform the applicant of its decision within the space of two months from the date of presentation.

The new company must be incorporated by a Notary Public and must be registered on the proper Registers (this may be done prior to authorisation being received).

Once authorisation has been received, the company must be registered on the Official ZEC Register, which is managed by the Consortium Board.

ZEC Companies are subject to the following fees:

- Registration fee: 600 Euros
- Annual fee to remain on the Official ZFC Register 600 Euros

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[illegible]

Madeira Tax Advantages - Corporation Tax Page 1 of 2

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TAX Advantages

- VAT Rates in the EU
- Digitalised Services
- VAT - Possible Savings
- Non EU and EU Vendors
- Subsidiary Registration
- Corporation Tax

Dixcart Resourcing

- Services
- Server Hosting
- Internet Solutions
- IT Consultancy
- Premises, Staff
- Professional Services

FAQ

- Why Madeira?
- IT Solutions

TAX ADVANTAGES

Corporation Tax
Traditionally, Madeira's main sources of income have been tourism, wine and agriculture. To broaden the base of the economy of the island, the Free Trade Zone Legislation was enacted in 1987 with the full support of both the Portuguese Government and the European Union. This has led to Madeira becoming a successful international business centre.

During 2002 and 2003 revised tax benefits were implemented in Madeira, and a new tax regime is available to companies setting up activities in the Free Trade Zone of Madeira during the years 2003 to 2006. Under the revised tax regime companies will enjoy a reduced rate of taxation until the end of 2011.

Between the years 2003 and 2006 the Madeira Free Trade Zone will consist of three principal sectors:

- an industrial free trade zone
- an international service sector
- an international shipping registry

In principle, the objectives of the new tax system are to diversify the economy and to contribute to the development of skills within the region.

Under the new regime, approved by the EU, companies licensed between the years 2003 and 2006 will enjoy reduced rates of corporate tax as follows:

- 1 % in 2003 and 2004
- 2 % in 2005 and 2006
- 3 % in 2007 to 2011

Companies will, however, have to meet certain conditions before they are eligible for the tax benefits.

The advantages will depend on the number of jobs created within the first six months of activity and the level of company investment:

- Companies creating between 1 to 5 jobs will be eligible for tax benefits only if they make a minimum investment of € 75.000 in fixed assets during the first two years of business. In all cases, tax benefits will be granted on taxable income limited to a ceiling ranging between € 1.5 million (where less than 3 jobs are created) to € 125 million (where more than 100 jobs are created).

- Companies creating six or more jobs will be eligible to benefit from the new tax regime without having to undertake a minimum investment in fixed assets.

- Companies undertaking industrial activities may benefit from a 50% reduction in taxable income should certain further conditions be met (e.g. maintaining at least 15 employees for 5 years, undertaking a high value added activity, etc.)

http://www.dixcartnet.pt/trade_zone.htm 03/08/2006

The Portuguese Authorities have also confirmed that companies licensed to operate in the international service sector are restricted from carrying out activities such as financial and insurance intermediary activities and all "intra-group services" (co-ordination, accounting and distribution centres).

Companies licensed prior to 31st December 2000 will continue to be exempt from taxation until 31st December 2011. Such companies are not subject to any employment or investment requirements.

Dixcart, with over 15 years experience in the Free Trade Zone Centre in Madeira, is well placed to advise clients on how to make the most of the tax benefits available in Madeira. Further information on this subject is available on the dixcart.com website or by contacting any of the seven Dixcart offices.

>> Dixcart Resourcing >>

Agência Portuguesa para o Investimento

MADEIRA ISLAND, SPECIAL CORPORATE TAX REGIME

The Madeira Island benefits from a special corporate tax regime, applicable to the following sectors:

- industrial activities;
- commercial activities;
- sea transport;
- Services, with the exception of those listed below.

Sectors exempt from special corporate tax regime

The special corporate tax regime explicitly excludes the following sectors:

- Financial mediation, insurance and auxiliary activities for financial intercession;
- Centralized administrative services, such as logistics, treasury and distribution centers.

Companies that are to benefit from the special tax regime must comply with one of the following clauses:

- Create 1 to 5 jobs, and make a minimum of €75,000 investment in the acquisition of fixed assets during the first 2 years of operations;
- Create 6 or more jobs.

Companies in the sectors listed above, whose licensing takes place between the 1st of January 2003 and the 31st of December 2006 are subject to the following corporate tax rates (IRC - Decree-Law 163/2003, 24th July):

- 1% for the year 2003;
- 2% for the year 2004;
- 3% from the year 2005 onwards.

Additionally, companies undertaking industrial activities are entitled to a 50% tax reduction if they fulfill at least two of the following requisites:

- Contribute towards the modernization of the regional economy, namely through technological innovation of products/ production processes, or business model innovation;

API - Portuguese Investment Agency - [illegible] Page 1 of 2

Agência Portuguesa para o Investimento

- Contribute towards the diversification of the regional economy, namely through the operation of high value-added activities;
- Contribute to the long-term permanence of highly skilled, technically or scientifically specialized human resources in the Madeira region;
- Contribute towards the improvement of environmental conditions;
- Create at least 15 job posts, maintained for a minimum of 5 years.

Corporate income subject to the aforementioned tax rates cannot exceed the following limits, conditioned by the number of jobs created:

- 1 or 2 jobs: € 1 500 000
- 3 to 5 jobs: € 2 000 000
- 6 to 30 jobs: € 12 000 000
- 31 to 50 jobs: € 20 000 000
- 51 to 100 jobs: € 30 000 000
- Over 100 jobs: € 100 000 000.

Activities entitled to the Madeira Island special corporate tax regime (Decree-Law [illegible])

- Agriculture and animal breeding, excluding veterinary practices, forestry and timber related services (NACE A, 01.4 and 02.02)
- Fishing, fish farming and related service activities (NACE B, [illegible])
- Manufacturing (NACE D)
- Electricity, gas, steam and hot water supply (NACE E, 40)
- Retail, maintenance and repair of motor vehicles, fuel retailing, wholesale trade and commission trade except of motor vehicles and motorcycles (NACE G, 50 and 51)
- Land transport, transport via pipelines, water transport, air transport, supporting and auxiliary transport activities, travel agencies, post and telecommunications (NACE I, 60, 61, 62, 63 and 64)
- Real estate, machinery and equipment rental without an operator, personal and household goods rental, computer and related activities, R&D, other business activities (NACE K, 70, 71, 72, 73 and 74)
- Higher education, adult and other education (NACE M, 80.3 and 80.4)
- Sewage and waste disposal, sanitation and similar activities, recreational, cultural and sporting activities; textile and fur products washing and dry cleaning (NACE O, 90, 92 and 93.01)

API - Portuguese Investment Agency - www.investinportugal.pt | api@apinvest.pt

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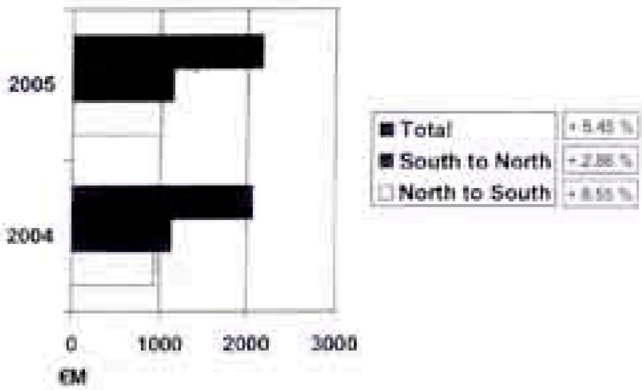
InterTradeIreland

Cross Border Trade in Manufacturing

	2004	2005	% change
North to South	933.8	1013.7	8.55%
South to North	1125.8	1158.3	2.88%
Total	2059.6	2171.9	5.45%

Cross Border Trade In Manufacturing 2004 & 2005



2003 - 2005

Costs	Total = £20.7m Programme = c £12m Admin = c £8m
Results	9500 companies c750 directly engaged in projects £50m value (Trade & Business Development)
Returns on Investment	1. Against Programme Costs > 4:1 2. Against total costs > 2.5:1

Strategic Investment Board

Mr Jim Wells, MLA
Chair, Assembly Sub Group on Economic Challenges
Parliament Buildings
Stormont Estate
BELFAST

04 August 2006

Dear Mr Wells

Provision of additional information to the Assembly Sub Group

Thank you for inviting Strategic Investment Board Limited (SIB) to provide oral evidence on Thursday 27 July to the Assembly Sub Group on the economic challenges facing Northern Ireland. I hope that our discussion was helpful to Members in addressing the Sub-Group's Terms of Reference.

We undertook to provide a written reply to four questions made by Members as set out below:

(1) Investment Framework for ISNI

In reply to Mr Mitchel McLaughlin MLA, the attached diagrams set out additional detail on the investment framework that we hope will underpin the Investment Strategy for Northern Ireland (2008-2018). You will appreciate that this is a working draft and may be subject to change as development work continues.

The purpose of the investment framework is to provide both a rigorous and transparent approach within which government priorities can then inform investment choices as between competing projects and sectors. We believe that it is critical that the framework is both flexible and sensitive to underlying factors in order to facilitate changing priorities that will inevitably emerge over time.

(2) Roads Package 2- Design, Build, Finance & Operate (DBFO)

In reply to Dr Alasdair McDonnell MP MLA, Roads Package 2 - DBFO comprises:

Scheme	Brief Description	Cost (2005 £m)
Scheme 1: A1 Beech Hill to Cloghogue	12.1km of high standard dual carriageway with no central reserve crossings, including hard shoulder and five grade separated junctions.	109
Scheme 2: A1 Junction Improvements	Provision of flyovers at four key junctions on A1	16
Scheme 3a: A4 Dungannon to Ballygawley	20.5km of high standard dual carriageway from Dungannon to Ballygawley Roundabout with no central reserve crossings and six flyover type junctions.	102
Scheme 3b & 3c: A4 / A5 Improvements	A4 Annaghilla: 3.8km of single carriageway realignment with eastboard 2+1 lane. A5 Tullyvar: 3.1km of single carriageway realignment with climbing lanes each way.	16
Schemes 4 & 5	Upgrade to communications infrastructure on M1 and pier protection to motorway bridges.	8
Total investment:		**c. 250m**

(3) Have PPP budgets contributed to the return of money to the Treasury because of delays in the PPP process?

In reply to Mr Roy Beggs MLA, budgets for capital projects in Northern Ireland are managed between the sponsoring Departments and the Department of Finance & Personnel (DFP). It is our understanding that any slippages in the delivery of capital projects - whether funded through PPPs or conventionally - resulting in less resources being invested in year than previously budgeted, are not lost to Northern Ireland, but are instead carried forward under HM Treasury's End Year Flexibility (EYF) mechanism for use in Northern Ireland in future years.

For a definitive answer, however, Mr Beggs might wish to contact DFP.

(4) Estimate of savings derived to date on SIB-supported projects

In reply to Mr Beggs' further enquiry, the savings achieved for the SIB supported projects will of course vary. In the case of Project Alpha, at the time of the announcement of financial close, the Water Service acknowledged a 25% saving on this project to the original capital estimates as highlighted on our web site (http://www.sibni.org/index/project-sectors/water-projects/drinking-water-projects-alpha.htm).

In the case of Roads Package 1, the saving is again material – at least 15% of the original capital estimate. We recognise the need to be able to cite such examples and we are currently engaged in such an exercise. As Members will be aware, many factors combine to influence value secured during the procurement process – including changing project scope, unexpected delays, cost inflation; against this we clearly seek to derive procurement and financing efficiency working with the relevant Department and its stakeholders as well as the contractor(s) and the professional team that they employ.

In summary, SIB seeks to work with Departments to manage the project/programme-related risks, streamline procurement processes and, ultimately, to provide a better deal for the public purse in terms of the overall outcome. We believe that there is any increasing body of evidence that supports this contention and clearly we recognise the need for us to be able to evidence this proposition.

Please contact me should you require any clarification. I also thought you might find it useful to have ten copies of our Annual Report & Accounts, which we published recently.

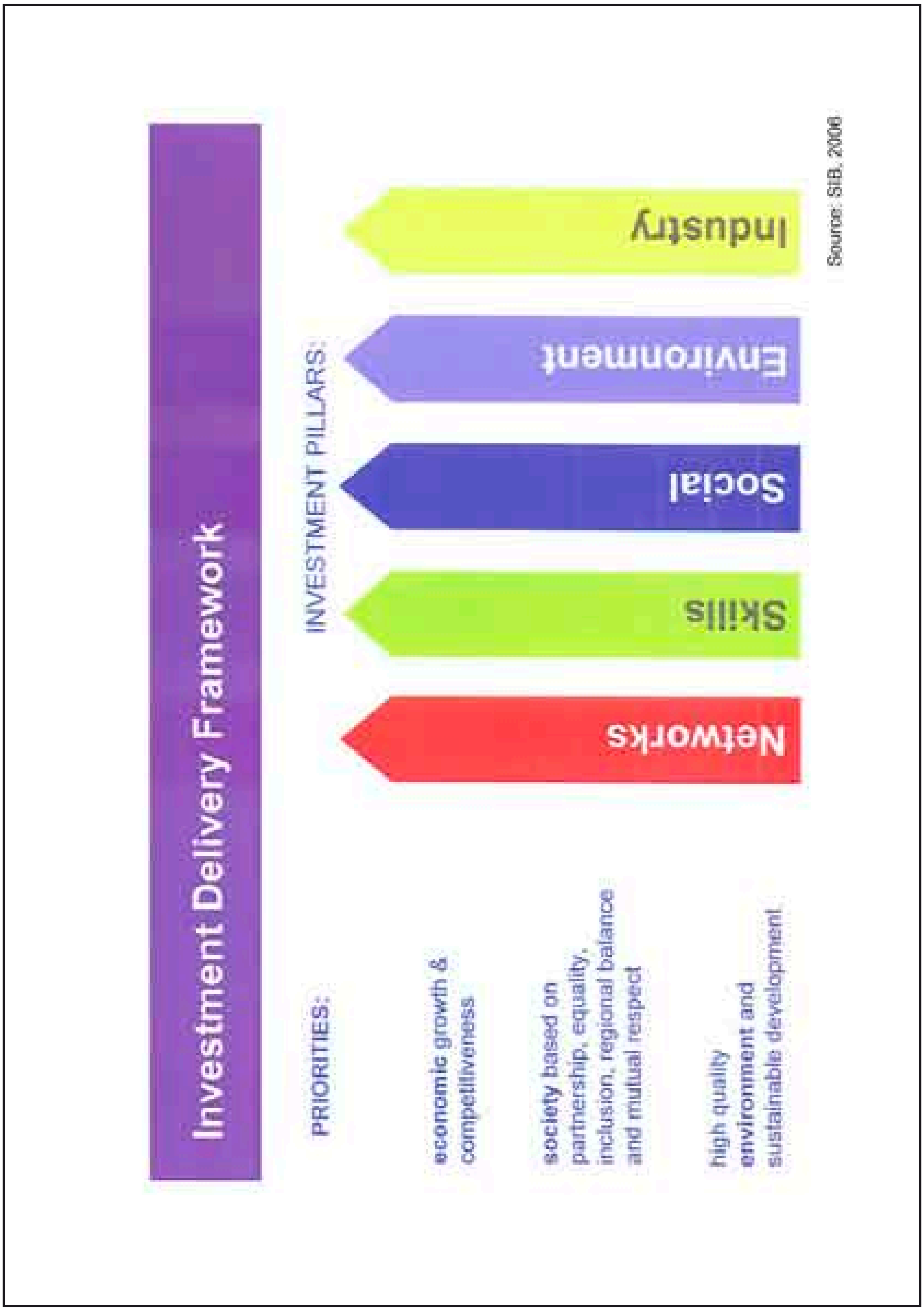
Finally, may I take this opportunity to wish the Sub-Group well in its deliberations and subsequent reporting to the Preparation for Government Committee.

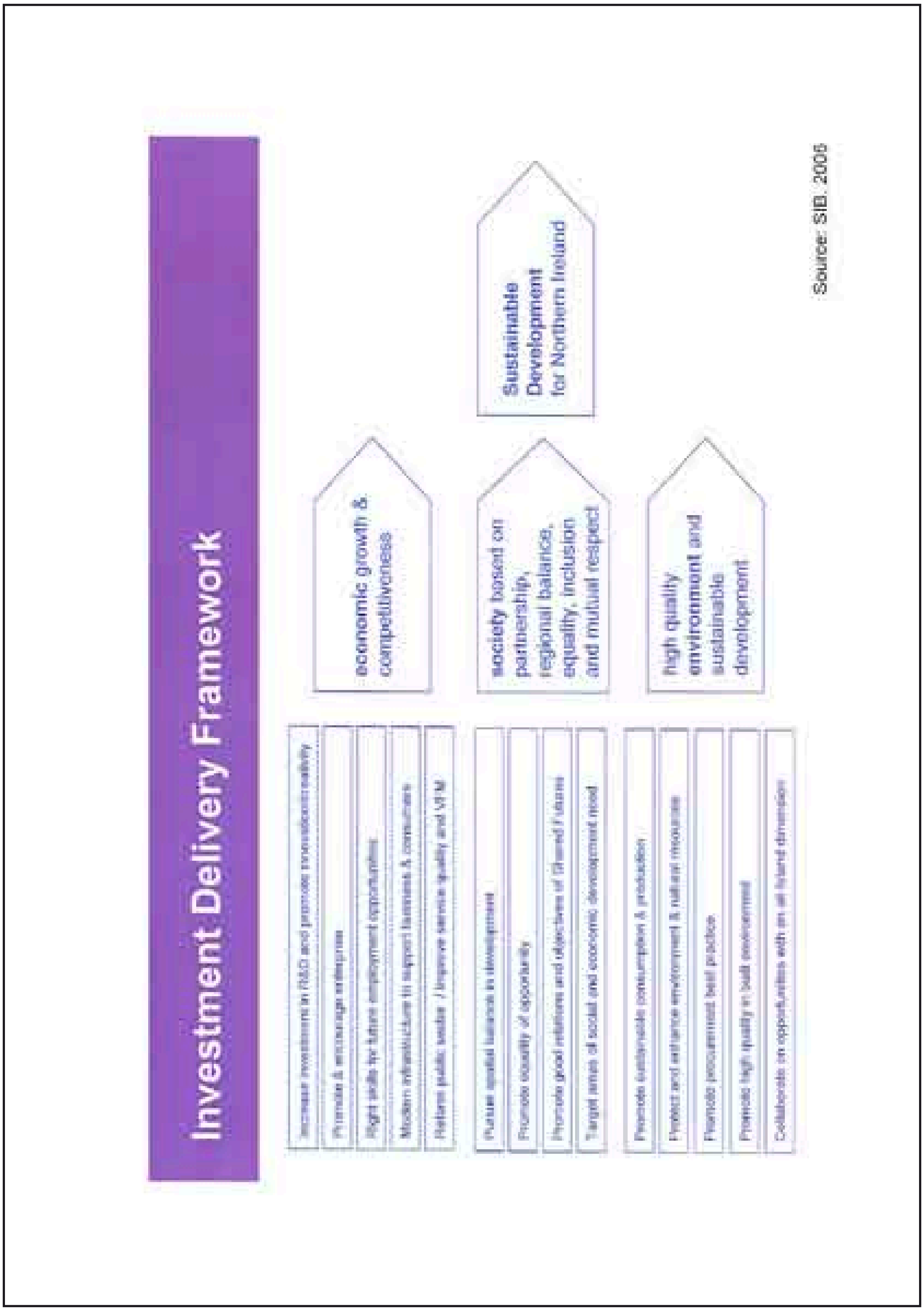
Yours sincerely,

David Gavaghan

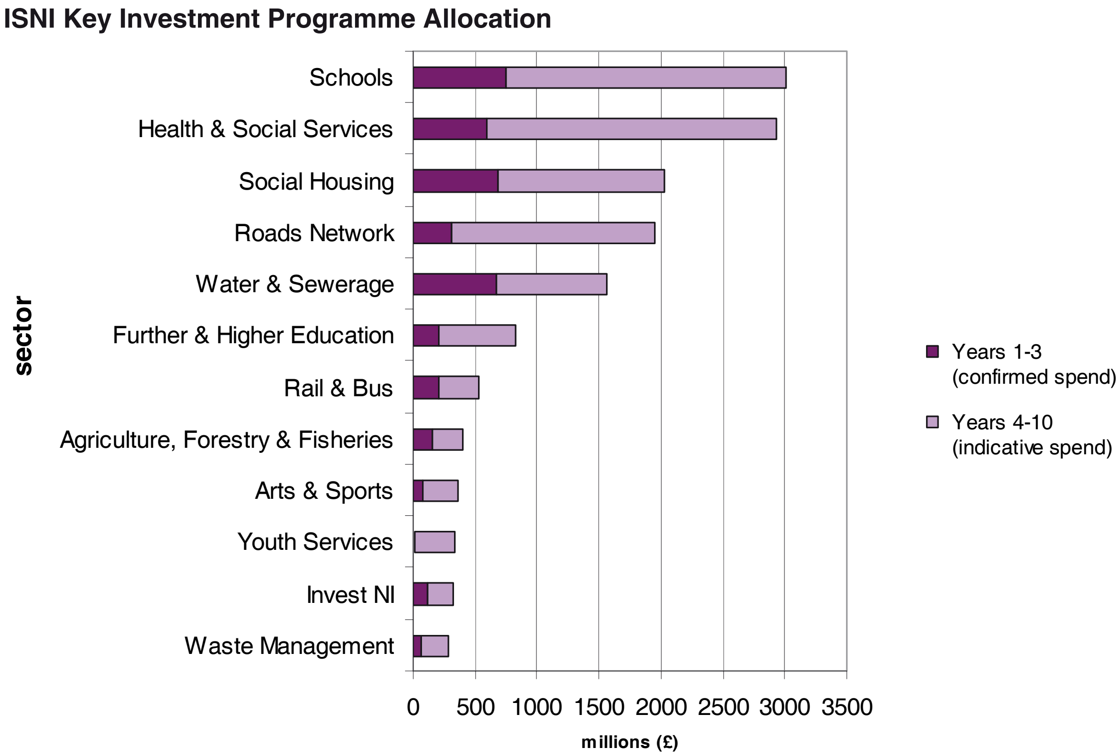
David N Gavaghan
Chief Executive

Enc.


Investment Delivery Framework
PRIORITIES:
economic growth & competitiveness
society based on partnership, equality, inclusion, regional balance and mutual respect
high quality environment and sustainable development
INVESTMENT PILLARS:
Networks
Skills
Social
Environment
Industry
Source: SIB, 2006


Investment Delivery Framework
economic growth & competitiveness
society based on partnership, regional balance, equality, inclusion and mutual respect
high quality environment and sustainable development
Sustainable Development for Northern Ireland
Source: SIB, 2006

Strategic Investment Board



Source: Investment Strategy for Northern Ireland 2005-2015

The following 11 tables are extracted from the Investment Strategy for Northern Ireland 2005/2015.

	Capital Investment £m		
	Yrs 1-3	**Yrs 4-10**	**Total**
DARD TOTAL	**160**	**242**	**402**
Rivers Agency	21	51	72
Central services infrastructure	13	32	45
Science/Agri-food and Biosciences Institute infrastructure	20	28	48
Nutrient management	39	0	39
Rural development	22	32	54
Service delivery infrastructure	8	16	24
Fisheries	9	20	29
College of Agriculture Food and Rural Enterprise	5	14	19
Other grants & investments	23	49	72

	Capital Investment £m		
	Yrs 1 - 3	Yrs 4 - 10	Total
DCAL TOTAL	**72**	**285**	**357**
Arts Infrastructure	18	2	20
Museums Development & Maintenance	16	25	41
Waterways & Canals	9	12	21
Public Record Office (PRONI)	1	34	35
Sports Programmes, Safety & Improvements	12	53	65
Libraries Development, Refurbishment & Repairs	13	74	87
Other Initiatives (Ordnance Survey, etc.)	3	-	3
Multi-Sports Stadium	-	85	85

	Capital Investment £m		
	Yrs 1-3	Yrs 4-10	Total
DE TOTALS	**790**	**2596**	**3386**
Major Works	606	1667	2273
Minor Works & Refurbishment	117	429	546
Access for Persons with Disabilities	29	57	86
Safer Routes to School Programme	1	18	19
Creative & Expressive Studies	0	82	82
Youth Service - Replacement & Refurbishment	18	240	258
Youth Service - Health & Safety	0	84	84
Other Initiatives	19	19	38

	Capital Investment Plan £m		
Investment in Infrastructure, Accommodation and Equipment, Disability Health and Safety and SLDD compliance and ICT	**Yrs 1-3**	**Yrs 4-10**	**Total**
DEL TOTAL	**206***	**615**	**821**
Further Education Sector	119	190	309
Higher Education Sector	87	425	512

	Capital Investment £m		
	Yrs 1-3	Yrs 4-10	Total
DETI TOTAL	**195**	**248**	**443**
Energy Infrastructure (eg gas pipelines)	20	15	35
Invest NI (eg grants to business etc)	118	201	319
Northern Ireland Science Park	4	2	6
Renewable Energy	33	16	49
Tourism (capital grants/projects)	12	14	26
Other Investments (eg broadband & economic development programmes)	8	0	8

	Capital Investment £m		
	Yrs 1-3	**Yrs 4-10**	**Total**
DFP TOTAL	**120**	**50**	**170**
Government Accommodation PPP	25	50	75
Strategic Plan for Office Estate	5	0	5
Human Resources Systems	36	0	36
Accounting Services Programme	11	0	11
Others	43	0	43

	Capital Investment £m		
	Yrs 1-3	**Yrs 4-10**	**Total**
DHSSPS TOTAL	**594**	**2,335**	**2,929**
Acute & Maternity	240	1,149	1,389
Maintenance, Repair & Minor Schemes	88	274	362
Primary & Community Care	63	485	548
Local Hospitals	7	163	170
Mental Health	6	93	99
Information & Communications Technology	48	64	112
Emergency Services	49	43	92
Patient Safety & Emergency Planning	43	39	82
Disability & Older People's services	29	8	37
Children's Homes	19	11	30
Other initiatives	2	6	8

	Capital Investment £m		
	Yrs 1-3	**Yrs 4-10**	**Total**
DOE TOTAL	**82***	**246**	**328**
Waste Management (including grants to District councils)	67*	218	285
Environment & Heritage Services	7	13	20
Other Investment (IT equipment etc)	8	15	23

	Capital Investment £m		
	Yrs 1-3	Yrs 4-10	Total
DRD TOTAL	**1,213**	**2,850**	**4,063**
Sewage Networks	86	-	86
Sewage Treatment	221	153	374
Water Networks	112	-	112
Water Treatment	23	176	199
Other Water Investments	80	-	80
Net Lending to the GoCo (note 1)	150	559	709
Strategic Road Improvements	108	896	1004
Roads – PPP Schemes	88	278	366
Roads – Capital Improvements	80	340	420
Roads - Street Lighting Renewals	16	72	88
Roads – Other Capital	13	54	67
Bus Investment	94	130	224
Rail Investment	117	192	309
Other Transport Investment	25	0	25

	Capital Investment £m		
	Yrs 1-3	Yrs 4-10	Total
DSD TOTAL	**466**	**959**	**1,425**
Social housing programme	702	1,344	2,046
NIHE - Grants	140	308	448
Urban regeneration	60	167	227
Social Security Offices	76	11	87
Child support & Other	0	1	1
Lands Service depletion	0	-33	-33
House & land sale receipts	-242	-293	-535
NIHE loan repayments	-270	-546	-816

	Capital Investment £m		
	Yrs 1-3	Yrs 4-10	Total
OFMDFM TOTAL	**24**	**0**	**24**
Electronic Document & Research Management System	6	0	6
Reinvestment and Reform Initiative (RRI) Strategic Sites*	15	0*	15
Other Investments	3	0	3

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